

**OFFICIAL STATEMENT  
TENNESSEE STATE SCHOOL BOND AUTHORITY  
HIGHER EDUCATIONAL FACILITIES  
SECOND PROGRAM BONDS  
\$33,730,000 2007 Series A  
\$14,040,000 2007 Series B (Federally Taxable)  
\$89,940,000 2007 Refunding Series C**

**Dated: January 1, 2007****Due: May 1 (as shown on inside front cover)**

This Official Statement has been prepared by the Tennessee State School Bond Authority (the "Authority") to provide information relating to the Authority's Higher Educational Facilities Second Program Bonds, 2007 Series A, 2007 Series B (Federally Taxable) and 2007 Refunding Series C (collectively, the "Offered Bonds"). Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Offered Bonds, a prospective investor should read the Official Statement in its entirety.

<b>Security</b>	The Offered Bonds are special obligations of the Authority payable from and secured by Annual Financing Charges and Legislative Appropriations payable to the Authority by the Board of Trustees of The University of Tennessee and the Tennessee Board of Regents of the State University and Community College System of the State of Tennessee and other funds as more fully described herein. (See "Security and Sources of Payment for the Bonds" herein).
<b>Purpose</b>	See "Purposes of the Offered Bonds" herein.
<b>Bond Insurance</b>	The scheduled payment of principal of and interest on the 2007A Bonds maturing on and after 2010, the 2007B Bonds, and the 2007C Bonds maturing on and after 2010 will be guaranteed by FINANCIAL SECURITY ASSURANCE INC. under insurance policies issued concurrently with the delivery of the 2007A Bonds and 2007C Bonds.
<b>Interest Payment Dates</b>	November 1 and May 1, beginning May 1, 2007.
<b>Interest Rates and Yields</b>	See inside front cover.
<b>Denominations</b>	\$5,000 and integral multiples thereof.
<b>Book-Entry Only System</b>	The Depository Trust Company. See Appendix F.
<b>Redemption</b>	<p><b>The Offered Bonds</b> maturing on or after May 1, 2018 are subject to optional redemption by the Authority on or after May 1, 2017 at par.</p> <p>Term bonds will be subject to mandatory sinking fund redemption at par.</p> <p>See "Description of the Offered Bonds – Optional Redemption" on page 7.</p>
<b>Tax Exemption</b>	<p>Interest on the 2007A and 2007C Bonds is not included in gross income for Federal income tax purposes to the extent and subject to the conditions, limitations and continuing compliance with tax covenants as described herein.</p> <p>Interest on the 2007B Bonds is includable in gross income for Federal income tax purposes.</p> <p>The Offered Bonds and the interest thereon are exempt from Tennessee taxes, subject to certain exceptions.</p> <p>See "Tax Matters" herein.</p>

*The Offered Bonds are offered when, as and if issued and received by the Underwriters subject to certain conditions, including the approval of legality by Hawkins Delafield & Wood LLP, Bond Counsel to the Authority. Certain legal matters in connection with the Offered Bonds are subject to the approval of the Attorney General and Reporter of the State of Tennessee, as counsel to the Authority, and Bass, Berry & Sims PLC, counsel to the Underwriters. The Offered Bonds are expected to be delivered in New York, New York, through the facilities of The Depository Trust Company on or about January 23, 2007.*

**UBS INVESTMENT BANK****MORGAN KEEGAN & COMPANY, INC.**

**DUNCAN-WILLIAMS, INC.  
LOOP CAPITAL MARKETS, LLC**

**JPMORGAN CHASE & CO.****Dated: January 9, 2007**

**Higher Educational Facilities Second Program Bonds**  
**\$33,730,000 2007 Series A**

<u>Due</u> <u>May 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Cusip</u> <u>880557**</u>	<u>Due</u> <u>May 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Cusip</u> <u>880557**</u>
2007	\$ 670,000	4.000%	3.550%	P31	2017 <sup>†</sup>	1,430,000	4.000%	3.800%	Q55
2008	990,000	4.000%	3.590%	P49	2018 <sup>†</sup>	1,490,000	4.250%	3.940% *	Q63
2009	1,030,000	4.000%	3.620%	P56	2019 <sup>†</sup>	1,560,000	4.250%	4.030% *	Q71
2010 <sup>†</sup>	1,075,000	4.000%	3.620%	P64	2020 <sup>†</sup>	1,630,000	4.250%	4.130% *	Q89
2011 <sup>†</sup>	1,120,000	4.000%	3.620%	P72	2021 <sup>†</sup>	1,700,000	4.375%	4.180% *	Q97
2012 <sup>†</sup>	1,165,000	4.000%	3.630%	P80	2022 <sup>†</sup>	1,780,000	4.500%	4.190% *	R21
2013 <sup>†</sup>	1,215,000	4.000%	3.660%	P98	2023 <sup>†</sup>	1,860,000	4.125%	4.250%	R39
2014 <sup>†</sup>	1,265,000	4.000%	3.680%	Q22	2024 <sup>†</sup>	1,945,000	5.000%	4.070% *	R47
2015 <sup>†</sup>	1,320,000	4.000%	3.700%	Q30	2025 <sup>†</sup>	2,045,000	5.000%	4.090% *	R54
2016 <sup>†</sup>	1,375,000	4.000%	3.750%	Q48	2026 <sup>†</sup>	2,150,000	4.200%	4.320%	R62

\$2,730,000 5.000% Term Bonds Due May 1, 2031<sup>†</sup> - Yield 4.140% \* Cusip # 880557R70\*\*

\$2,185,000 4.250% Term Bonds Due May 1, 2036<sup>†</sup> - Yield 4.430% Cusip # 880557R88\*\*

**Higher Educational Facilities Second Program Bonds**  
**\$14,040,000 2007 Series B (Federally Taxable)**

\$6,315,000 5.243% Term Bonds Due May 1, 2017<sup>†</sup> - Yield 5.243% Cusip # 880557R96\*\*

\$2,845,000 5.544% Term Bonds Due May 1, 2022<sup>†</sup> - Yield 5.544% Cusip # 880557S20\*\*

\$4,880,000 5.666% Term Bonds Due May 1, 2036<sup>†</sup> - Yield 5.666% Cusip # 880557S38\*\*

**Higher Educational Facilities Second Program Bonds**  
**\$89,940,000 2007 Refunding Series C**

<u>Due</u> <u>May 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Cusip</u> <u>880557**</u>	<u>Due</u> <u>May 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Cusip</u> <u>880557**</u>
2008	1,345,000	4.000%	3.590%	S46	2019 <sup>†</sup>	5,875,000	5.000%	3.930% *	T78
2009	1,400,000	4.000%	3.620%	S53	2020 <sup>†</sup>	6,185,000	5.000%	3.970% *	T86
2010 <sup>†</sup>	1,455,000	4.000%	3.620%	S61	2021 <sup>†</sup>	6,015,000	5.000%	4.010% *	T94
2011 <sup>†</sup>	1,315,000	4.000%	3.620%	S79	2022 <sup>†</sup>	6,325,000	5.000%	4.030% *	U27
2012 <sup>†</sup>	345,000	4.000%	3.630%	S87	2023 <sup>†</sup>	5,470,000	5.000%	4.050% *	U35
2013 <sup>†</sup>	350,000	4.000%	3.660%	S95	2024 <sup>†</sup>	5,200,000	5.000%	4.070% *	U43
2014 <sup>†</sup>	365,000	4.000%	3.680%	T29	2025 <sup>†</sup>	5,475,000	5.000%	4.090% *	U50
2015 <sup>†</sup>	380,000	4.000%	3.700%	T37	2026 <sup>†</sup>	5,765,000	5.000%	4.110% *	U68
2016 <sup>†</sup>	395,000	4.000%	3.750%	T45	2027 <sup>†</sup>	6,055,000	5.000%	4.120% *	U76
2017 <sup>†</sup>	405,000	4.000%	3.800%	T52	2028 <sup>†</sup>	6,375,000	5.000%	4.120% *	U84
2018 <sup>†</sup>	3,935,000	5.000%	3.890% *	T60					

\$19,510,000 5.000% Term Bonds Due May 1, 2032<sup>†</sup> - Yield 4.140% \* Cusip # 880557U92\*\*

<sup>†</sup>Insured by Financial Security Assurance Inc.

\*Priced to May 1, 2017 call date

\*\*These CUSIP numbers have been assigned by Standard & Poor's CUSIP Service Bureau, a Division of The McGraw Hill Companies, Inc., and are included solely for the convenience of the Bondholders. Neither the Authority nor the Underwriters are responsible for the selection or use of these CUSIP numbers, nor is any representation made as to their correctness on the Refunding Bonds or as indicated herein.

This Official Statement does not constitute an offering of any security other than the Offered Bonds specifically offered hereby. No dealer, broker or other person has been authorized by the Authority to give any information or to make any representation other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized by the Authority. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Offered Bonds by any persons in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

Certain information set forth herein has been provided by the Authority. Certain other information set forth herein has been obtained by the Authority from sources believed to be reliable, but it is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances in this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Other than with respect to information concerning Financial Security Assurance Inc. (“Financial Security”) contained under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Bond Insurance” and in Appendix I “FINANCIAL SECURITY ASSURANCE INC. AND SPECIMEN INSURANCE POLICIES FINANCIAL SECURITY ASSURANCE INC.” herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Offered Bonds; or (iii) the tax exempt status of the interest on the Offered Bonds.

NO REGISTRATION STATEMENT RELATING TO THE BONDS HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION (“SEC”) OR ANY STATE SECURITIES AGENCY. THE BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SEC OR ANY STATE SECURITIES AGENCY, NOR HAS THE SEC OR ANY STATE SECURITIES AGENCY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

In making an investment decision, investors must rely on their own examination of the Authority and the terms of the offering, including the merits and risks involved.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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## **TENNESSEE STATE SCHOOL BOND AUTHORITY**

Phil Bredesen, Governor, *Chairman*  
John G. Morgan, Comptroller of the Treasury, *Secretary*  
Riley C. Darnell, Secretary of State  
Dale Sims, State Treasurer  
Dave Goetz, Commissioner of Finance and Administration  
Dr. John Petersen, President of the University of Tennessee  
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**OFFICIAL STATEMENT  
TENNESSEE STATE SCHOOL BOND AUTHORITY  
HIGHER EDUCATION FACILITIES  
SECOND PROGRAM BONDS  
\$33,730,000 2007 Series A  
\$14,040,000 2007 Series B (Federally Taxable)  
\$89,940,000 2007 Refunding Series C**

**INTRODUCTION**

The purpose of this Official Statement (including the cover page and inside cover page hereof and the Appendices hereto, including the financial information in Appendix A) is to set forth information concerning (i) the Tennessee State School Bond Authority (the “Authority”), (ii) the Board of Trustees of The University of Tennessee (the “Board of Trustees”), (iii) the Tennessee Board of Regents of the State University and Community College System of the State of Tennessee (the “Board of Regents”), (iv) The University of Tennessee including all of its branches and divisions wherever located (collectively, with respect to the Board of Trustees, an “Institution”), and institutions of higher education under the supervision of the Board of Regents (each, with respect to the Board of Regents, an “Institution”), and (v) the Authority's \$33,730,000 aggregate principal amount of Higher Educational Facilities Second Program Bonds, 2007 Series A (the “2007A Bonds”), \$14,040,000 aggregate principal amount of Higher Educational Facilities Second Program Bonds, 2007 Series B (Federally Taxable) (the “2007B Bonds”) and \$89,940,000 aggregate principal amount of Higher Education Facilities Program Bonds, 2007 Refunding Series C (the “2007C Bonds”). The 2007A Bonds, the 2007B Bonds, and the 2007C Bonds are referred to collectively as the “Offered Bonds”. The Board of Trustees and the Board of Regents are referred to collectively as the “Boards”.

The capitalization of any word not conventionally capitalized and not otherwise defined herein indicates that such word is defined in the Glossary of Certain Terms attached hereto as Appendix C or in the Resolution (as defined herein), or in the Financing Agreements referred to herein.

The Offered Bonds will be issued pursuant to the Tennessee State School Bond Authority Act as amended, Sections 49-3-1201 *et seq.*, Tennessee Code Annotated (the “Act”), the Higher Educational Facilities Second Program General Bond Resolution adopted by the Authority on April 27, 1998 authorizing the issuance thereunder from time to time of Higher Educational Facilities Second Program Bonds (the “Bonds”) and a Supplemental Resolution adopted by the Authority on January 3, 2007 authorizing and providing for the issuance of the Offered Bonds (such General Bond Resolution as amended and supplemented from time to time, including by such Supplemental Resolution, the “Resolution”). For a “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION”, see Appendix E.

The Act empowers the Authority, among other things, to issue its bonds and notes to obtain funds, or to refund its bonds or notes issued to obtain funds, to finance higher educational facilities (as defined in Appendix C, the “Projects”) for the purposes of the Institutions and the Boards. The Authority and each Board has entered into a separate Second Program Financing Agreement dated as of November 1, 1997, as amended, (each, a “Financing Agreement”) under which the Authority agrees to finance Projects and the respective Boards agree to make payments to the Authority of, among other amounts, (i) Annual Financing Charges for the payment of debt service on the Bonds and certain other purposes and (ii), if necessary in connection with Bonds issued for a Project for an Institution, amounts appropriated by the General Assembly of the State (Legislative Appropriations) for the operation and maintenance of the related Institution.

For a “SUMMARY OF CERTAIN PROVISIONS OF THE FINANCING AGREEMENTS”, see Appendix D. The Financing Agreements and the Resolution constitute the second and only other Authority loan program for the Boards. The first program (the “First Program”), which commenced in 1967, is no longer utilized, but any payments by the Boards thereunder will be superior to the Boards’ payments under the second program (the “Second Program”) which will be funded by Bonds, including the Offered Bonds, as described under “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – First Program; Subordination of Second Program; No Additional First Program Debt”.

For a description of the governmental entity termination provisions of the Tennessee Governmental Entity Review Law, as amended, Sections 4-29-101 *et seq.*, Tennessee Code Annotated (the “Governmental Entity Review Law”) and their effect on the Authority and the Boards, see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Termination of Existence.”

The 2007A Bonds and 2007B Bonds will be issued to pay costs of certain Projects and to retire Commercial Paper heretofore issued pursuant to the Act and a Commercial Paper Resolution adopted by the Authority on November 18, 1997 for certain Projects (all Commercial Paper issued under such resolution, the "Commercial Paper"). For a description of the Commercial Paper program, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Subordinated Obligations; Commercial Paper".

The 2007C Bonds will be issued to provide funds necessary to current refund and economically defease the Current Refunded Bonds issued under the First Program, as well as to provide funds necessary to advance refund and defease the Advance Refunded Bonds issued under the Second Program. For a description of the bonds constituting Current Refunded Bonds and Advance Refunded Bonds and certain other information relating to their refunding, see "PURPOSES OF THE OFFERED BONDS-Plan of Refunding and Application of 2007C Bond Proceeds" below.

The Offered Bonds will be payable and secured under the Resolution on a parity with all other Bonds heretofore and hereafter issued pursuant to the Act and the Resolution, except as expressly provided in or permitted by the Resolution. Currently, the aggregate principal amount of Bonds which may be issued under the Resolution is not limited by law or Resolution.

The Bonds, including the Offered Bonds, constitute special obligations of the Authority. The principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Bonds shall be payable solely from and secured by the Annual Financing Charges, Legislative Appropriations and other moneys and securities held or set aside under the Resolution, subject to the application thereof to the purposes and on the conditions permitted by the Resolution. The Resolution establishes a Debt Service Reserve Fund, which is required to be maintained at the level of the Debt Service Reserve Requirement as provided in the Resolution.

Payments by the Boards of Annual Financing Charges, Legislative Appropriations and other amounts under the Financing Agreements are subordinate in all respects to the payments by the Boards of similar obligations under the First Program Financing Agreements which support the bonds and notes issued by the Authority under the First Program General Bond Resolution.

As of January 23, 2007, giving effect of the issuance of the 2007C Bonds and the defeasance of the Current Refunded Bonds, on a proforma basis, \$43,469,583 aggregate principal amount of Bonds will be outstanding under the First Program General Bond Resolution, of which \$31,640,000 will be financially defeased. No additional First Program bonds or notes may be issued. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - First Program; Subordination of Second Program; No Additional First Program Debt" and "THE AUTHORITY – Outstanding Indebtedness of the Authority".

As of January 23, 2007, giving effect of the issuance of the Offered Bonds and the defeasance of the Advance Refunded Bonds, on a proforma basis, \$567,075,000 aggregate principal amount of bonds will be outstanding under the Second Program General Bond Resolution. See "PURPOSES OF THE OFFERED BONDS" and "THE AUTHORITY – Outstanding Indebtedness of the Authority".

Under each Financing Agreement, the relevant Board covenants and agrees to establish and collect Fees and Charges at each Institution at a level sufficient to produce in each Fiscal Year no less than two times the amount required for the payment of the aggregate (without duplication) of (i) all Annual Financing Charges in such Fiscal Year payable with respect to all Projects for the Institution, plus (ii) all First Program Annual Financing Charges in such Fiscal Year payable with respect to all First Program Projects for the Institution, plus (iii) the aggregate of all prior charges, pledges, liens and claims on or payable from said Fees and Charges in such Fiscal Year with respect to the Institution, including but not limited to all prior charges, pledges, liens and claims on or payable from the First Program Fees and Charges in such Fiscal Year with respect to the Institution.

For a description of the security for the Offered Bonds, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS".

## PURPOSES OF THE OFFERED BONDS

### Application of 2007A Bond and 2007B Bond Proceeds

The 2007A Bonds and 2007B Bonds are being issued for the purposes of (i) retiring at maturity the principal of Commercial Paper heretofore issued for certain Projects identified below, (ii) financing a portion of the costs of certain other Projects identified below, (iii) satisfying Debt Service Reserve Requirements, and (iv) paying costs of issuance of the 2007A Bonds and 2007B Bonds. The Commercial Paper to be retired with proceeds of the 2007A Bonds and 2007B Bonds matures on various dates and in various principal amounts through February 15, 2007. The interest on such Commercial Paper will be paid at maturity with other available funds.

The following table shows the Projects to be financed and refinanced with the proceeds of the 2007A Bonds and the principal amount of the 2007A Bonds for each Project:

<u>Institution</u>	<u>Project</u>	<u>Amount</u>
University of Tennessee - Chattanooga	A16 Campus Landscaping	\$ 988,855
University of Tennessee - Knoxville	A27 Soccer Stadium Improvements	6,427,560
University of Tennessee - Memphis	A37 UT/Memphis Mental Health Institute	13,843,975
Tennessee State University	524 Student Housing Fire Suppression Retrofit	1,206,403
University of Memphis	634 Richardson & Rawls Fire Safety Upgrade	3,327,236
Austin Peay State University	721 Memorial Health Ctr Student Recreation Upgrade	7,935,971
		<u>\$ 33,730,000</u>

The following table shows the Projects to be financed and refinanced with the proceeds of the 2007B Bonds and the principal amount of the 2007B Bonds for each Project:

<u>Institution</u>	<u>Project</u>	<u>Amount</u>
University of Tennessee - Chattanooga	A25 Sim Center Building Acquisition	\$ 2,238,827
University of Memphis	631 Carpenter Student Housing	3,719,692
Tennessee State University	521 Research and Sponsored Programs Bldg	8,081,481
		<u>\$ 14,040,000</u>

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The sources and application of funds in connection with the issuance of the 2007A Bonds and 2007B Bonds are estimated as follows:

	<b>2007A Bonds</b>	<b>2007B Bonds</b>	<b>Total</b>
<b>Sources of Funds:</b>			
Par Amount of Bonds	\$ 33,730,000	\$ 14,040,000	\$ 47,770,000
Accrued Interest	88,945	46,770	135,715
Net Original Issue Premium	721,700	-	721,700
Total	<u>\$ 34,540,645</u>	<u>\$ 14,086,770</u>	<u>\$ 48,627,415</u>
<b>Uses of Funds:</b>			
Project Construction Accounts (approx.)	\$ 8,951,824	\$ 651,895	\$ 9,603,719
Retirement of Commercial Paper (approx.)	25,183,588	13,244,015	38,427,603
Accrued Interest	88,945	46,770	135,715
Reserve Fund Credit Facility	29,111	14,749	43,860
Municipal Bond Insurance	91,388	42,903	134,291
Underwriters' Discount	127,428	57,534	184,962
Costs of Issuance	68,361	28,904	97,265
Total	<u>\$ 34,540,645</u>	<u>\$ 14,086,770</u>	<u>\$ 48,627,415</u>

#### **Plan of Refunding and Application of 2007C Bond Proceeds**

The 2007C Bonds are being issued for the purposes of (i) providing funds necessary for the current refunding of the Current Refunded Bonds described and defined below, which were issued pursuant to the First Program General Bond Resolution, (ii) providing funds necessary for the advance refunding of the Advance Refunded Bonds described and defined below, which were issued pursuant to the Second Program General Bond Resolution, (iii) satisfying Debt Service Reserve Requirements, and (iv) paying costs of issuance of the 2007C Bonds.

The "Current Refunded Bonds," to be refunded by the 2007C Bonds, consist of \$8,985,000 aggregate principal amount of Higher Educational Facilities First Program Bonds, of the respective series, in the respective principal amounts, bearing interest at the respective rates, and with respective redemption dates and prices as set forth in the following table.

<b>Current Refunded Bonds</b>					
<b>Series</b>	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Principal Amount</b>	<b>Redemption Date</b>	<b>Redemption Price</b>
1996B	5/1/2008	5.000%	1,255,000	2/23/2007	101.50%
	5/1/2009	5.000%	1,320,000	2/23/2007	101.50%
	5/1/2010	5.250%	1,385,000	2/23/2007	101.50%
	5/1/2011	5.250%	980,000	2/23/2007	101.50%
			<u>\$ 4,940,000</u>		
1996C	5/1/2011	6.000%	\$ 310,000	2/23/2007	101.50%
	5/1/2012	6.000%	335,000	2/23/2007	101.50%
	5/1/2013	6.000%	350,000	2/23/2007	101.50%
	5/1/2014	5.375%	370,000	2/23/2007	101.50%
	5/1/2015	5.375%	390,000	2/23/2007	101.50%
	5/1/2020	5.700%	2,290,000	2/23/2007	101.50%
			<u>\$ 4,045,000</u>		
Total Current Refunded Bonds			<u>\$ 8,985,000</u>		



The “Advance Refunded Bonds,” to be refunded by the 2007C Bonds, consist of \$82,030,000 aggregate principal amount of Higher Educational Facilities Second Program Bonds, of the respective series, in the respective principal amounts, bearing interest at the respective rates, and with respective redemption dates and prices as set forth in the following table.

<b>Advance Refunded Bonds</b>					
<b><u>Series</u></b>	<b><u>Maturity Date</u></b>	<b><u>Interest Rate</u></b>	<b><u>Principal Amount</u></b>	<b><u>Redemption Date</u></b>	<b><u>Redemption Price</u></b>
1998A	5/1/2023	5.000%	\$ 10,115,000	5/1/2008	100.00%
	5/1/2028	5.000%	9,855,000	5/1/2008	100.00%
			<u>\$ 19,970,000</u>		
2002A	5/1/2018	5.000%	\$ 3,510,000	5/1/2012	100.00%
	5/1/2019	5.000%	3,690,000	5/1/2012	100.00%
	5/1/2020	5.125%	3,885,000	5/1/2012	100.00%
	5/1/2021	5.125%	4,090,000	5/1/2012	100.00%
	5/1/2022	5.125%	4,310,000	5/1/2012	100.00%
	5/1/2023	5.125%	3,330,000	5/1/2012	100.00%
	5/1/2027	5.125%	15,185,000	5/1/2012	100.00%
	5/1/2029	5.250%	8,865,000	5/1/2012	100.00%
	5/1/2032	5.250%	15,195,000	5/1/2012	100.00%
			<u>\$ 62,060,000</u>		
Total Advance Refunded Bonds			<u>\$ 82,030,000</u>		

The following table shows the Projects to be refinanced with the proceeds of the 2007C Bonds issued to refund the Current Refunded Bonds and the principal amount of the 2007C Bonds for each Project:

<b><u>Institution</u></b>	<b><u>Project</u></b>	<b><u>Amount</u></b>
<b>1996 Refunding Series B</b>		
University of Tennessee - Knoxville	166 Neyland Stadium North	\$ 1,331,609
University of Tennessee - Chattanooga	167 Sports Arena	745,345
University of Tennessee - Chattanooga	170 Single Student Housing	591,596
University of Tennessee - Chattanooga	171 Bookstore Addition	200,694
University of Tennessee - Chattanooga	172 Student Center Addition	837,748
University of Tennessee - Chattanooga	173 Goodman House	371,395
University of Memphis	610 Athletic Office Building	360,349
Austin Peay State University	709 Student Apartments	633,514
<b>1996 Refunding Series C</b>		
Tennessee State University	511 Dormitory Renovations	4,027,750
		<u>\$ 9,100,000</u>

The following table shows the Projects to be refinanced with the proceeds of the 2007C Bonds issued to refund the Advance Refunded Bonds and the principal amount of the 2007C Bonds for each Project:

<b><u>Institution</u></b>	<b><u>Project</u></b>	<b><u>Amount</u></b>
<b>1998 Series A</b>		
East Tennessee State University	320 Student Housing	\$ 2,352,720
Middle Tennessee State University	415 Stadium	11,407,658
Tennessee State University	513 Student Housing	5,356,638
<b>2002 Series A</b>		
University of Tennessee - Knoxville	257 Student Recreation Facility	11,615,386
University of Tennessee - Knoxville	259 Lake Ave Parking Garage	4,260,715
University of Tennessee - Knoxville	274 11th Ave Parking Garage	12,101,329
University of Tennessee - Martin	277 Jackson Family Practice Center	435,860
University of Tennessee - Memphis	287 Student Alumni Center Renovation	1,037,761
University of Tennessee - Chattanooga	288 Bolling Apartments Improvements	1,037,761
East Tennessee State University	322 Physical Activity Center	8,296,704
Middle Tennessee State University	420 Student Housing Renovations	2,421,441
Middle Tennessee State University	427 Development Facility	173,026
Tennessee State University	517 Housing Phase 2	5,333,794
University of Memphis	629 Student Activity Complex	1,659,341
Austin Peay State University	713 University Center Expansion	9,626,424
Tennessee Technological University	914 Residence Hall Replacement	3,723,442
		<u><u>\$ 80,840,000</u></u>

In conjunction with the delivery of the 2007C Bonds, the Authority will enter into a Refunding Trust Agreement (the "Refunding Trust Agreement") with Regions Bank, Nashville, Tennessee, as Refunding Trustee. Under the Refunding Trust Agreement, proceeds of the 2007C Bonds will be irrevocably deposited with the Refunding Trustee into a refunding trust fund thereunder and either be initially retained as cash or invested in non-callable direct obligations of the United States of America. The maturing principal of and interest on the non-callable direct obligations, and other moneys on deposit therein, will be sufficient to pay (i) the interest on the Refunded Bonds on each interest payment date to and including the respective redemption date and (ii) on the respective redemption date, the redemption price then due on the respective Refunded Bonds.

Upon issuance of the 2007C Bonds, the Refunded Bonds will be irrevocably designated for redemption as described above, provision will be made in the Refunding Trust Agreement for the giving of notice of such redemption, and the Refunded Bonds shall not be redeemed other than as described above.

Under the Resolution, by virtue of the provision for redemption described above, together with the irrevocable deposit and application of monies and securities as provided by the Refunding Trust Agreement and certain other provisions of the Refunding Trust Agreement and after the issuance of the 2007C Bonds, the Advance Refunded Bonds will no longer be outstanding under the Resolution. The Current Refunded Bonds will not be legally defeased under the First General Bond Resolution and will remain outstanding until they are redeemed.

The Authority will obtain verification of sufficiency of the refunding trust fund and certain yields from Causey Demgen & Moore Inc., a firm of independent certified public accountants. See "VERIFICATION".

The sources and application of funds in connection with the issuance of the 2007C Bonds are estimated as follows:

**Sources of Funds:**

Par Amount of Bonds	\$ 89,940,000
Accrued Interest	270,078
Original Issue Premium	<u>6,505,906</u>
Total	<u>\$ 96,715,984</u>

**Uses of Funds:**

Deposits under Refunding Trust Agreement	\$ 95,474,958
Accrued Interest	270,078
Reserve Fund Credit Facility	134,065
Municipal Bond Insurance	293,934
Underwriters' Discount	359,464
Costs of Issuance	<u>183,485</u>
Total	<u>\$ 96,715,984</u>

## **DESCRIPTION OF THE OFFERED BONDS**

### **General**

The Offered Bonds will be dated January 1, 2007 and will mature at the times and in the principal amounts as set forth on the inside cover page hereof. Interest on the Offered Bonds will be payable semi-annually on May 1 and November 1, commencing May 1, 2007. The Offered Bonds will be offered in authorized denominations of \$5,000 or integral multiples thereof.

Upon initial issuance, the Offered Bonds will be available only in book-entry form. The Depository Trust Company, New York, New York ("DTC") will act as initial securities depository for the Offered Bonds and the ownership of one fully registered bond for each maturity of the Offered Bonds in the aggregate principal amount of that maturity will be registered in the name of Cede & Co., as nominee of DTC, and deposited with DTC. Beneficial owners of Offered Bonds will not receive physical delivery of bond certificates except under limited circumstances. See Appendix F - "BOOK-ENTRY ONLY SYSTEM" for a description of DTC and its book-entry only system.

### **Fiduciaries**

Regions Bank, Nashville, Tennessee, is the successor Trustee under the Resolution and the Paying Agent and Registrar for the Offered Bonds.

### **Redemption**

*Optional Redemption.* The Offered Bonds maturing on or prior to May 1, 2017, are not subject to redemption prior to maturity. The Offered Bonds maturing on or after May 1, 2018 are subject to redemption prior to their stated maturities from any available moneys, at any time on and after May 1, 2017 as a whole, or in part from time to time in any order of maturity determined by the Authority, at a Redemption Price equal to the principal amount of such Offered Bonds or portions thereof to be redeemed, together with the interest accrued on such principal amount to the date fixed for redemption.

*Sinking Fund Redemption.* The 2007A Bonds maturing on May 1, 2031, are Term Bonds subject to redemption in part on May 1 in each of the years in the respective principal amounts set forth below at a Redemption Price equal to the principal amount or portion thereof to be redeemed, together with the interest accrued thereon to the date fixed for redemption, from Sinking Fund Installments which are required to be accumulated in the Debt Service Fund in amounts

sufficient to redeem on May 1 of each year shown below the principal amount of such Offered Bonds specified for such year:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>	
2027	\$490,000	2030	\$575,000	
2028	515,000	2031	605,000	(maturity)
2029	545,000			

The 2007A Bonds maturing on May 1, 2036, are Term Bonds subject to redemption in part on May 1 in each of the years in the respective principal amounts set forth below at a Redemption Price equal to the principal amount or portion thereof to be redeemed, together with the interest accrued thereon to the date fixed for redemption, from Sinking Fund Installments which are required to be accumulated in the Debt Service Fund in amounts sufficient to redeem on May 1 of each year shown below the principal amount of such Offered Bonds specified for such year:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>	
2032	\$400,000	2035	\$455,000	
2033	420,000	2036	475,000	(maturity)
2034	435,000			

The 2007B Bonds maturing on May 1, 2017, are Term Bonds subject to redemption in part on May 1 in each of the years in the respective principal amounts set forth below at a Redemption Price equal to the principal amount or portion thereof to be redeemed, together with the interest accrued thereon to the date fixed for redemption, from Sinking Fund Installments which are required to be accumulated in the Debt Service Fund in amounts sufficient to redeem on May 1 of each year shown below the principal amount of such Offered Bonds specified for such year:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>	
2007	\$335,000	2013	\$640,000	
2008	490,000	2014	670,000	
2009	515,000	2015	710,000	
2010	545,000	2016	750,000	
2011	575,000	2017	480,000	(maturity)
2012	605,000			

The 2007B Bonds maturing on May 1, 2022, are Term Bonds subject to redemption in part on May 1 in each of the years in the respective principal amounts set forth below at a Redemption Price equal to the principal amount or portion thereof to be redeemed, together with the interest accrued thereon to the date fixed for redemption, from Sinking Fund Installments which are required to be accumulated in the Debt Service Fund in amounts sufficient to redeem on May 1 of each year shown below the principal amount of such Offered Bonds specified for such year:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>	
2018	\$510,000	2021	\$600,000	
2019	535,000	2022	635,000	(maturity)
2020	565,000			

The 2007B Bonds maturing on May 1, 2036, are Term Bonds subject to redemption in part on May 1 in each of the years in the respective principal amounts set forth below at a Redemption Price equal to the principal amount or portion thereof to be redeemed, together with the interest accrued thereon to the date fixed for redemption, from Sinking Fund

Installments which are required to be accumulated in the Debt Service Fund in amounts sufficient to redeem on May 1 of each year shown below the principal amount of such Offered Bonds specified for such year:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>	
2023	\$670,000	2030	\$175,000	
2024	710,000	2031	185,000	
2025	750,000	2032	200,000	
2026	795,000	2033	210,000	
2027	150,000	2034	220,000	
2028	160,000	2035	235,000	
2029	170,000	2036	250,000	(maturity)

The 2007C Bonds maturing on May 1, 2032, are Term Bonds subject to redemption in part on May 1 in each of the years in the respective principal amounts set forth below at a Redemption Price equal to the principal amount or portion thereof to be redeemed, together with the interest accrued thereon to the date fixed for redemption, from Sinking Fund Installments which are required to be accumulated in the Debt Service Fund in amounts sufficient to redeem on May 1 of each year shown below the principal amount of such Offered Bonds specified for such year:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>	
2029	\$4,510,000	2031	\$4,995,000	
2030	4,750,000	2032	5,255,000	(maturity)

Satisfaction of any Sinking Fund Installment for any Term Bonds also may be made by purchase or redemption of such Term Bonds, if the Authority so directs the Registrar, prior to 45 days preceding the due date of such Sinking Fund Installment.

*Selection of Bonds to be Redeemed.* If less than all of the Offered Bonds of a maturity are to be redeemed, the particular Offered Bonds or portions thereof of such maturity to be redeemed shall be selected by the Registrar in any manner which it deems fair and appropriate. In such event, for so long as a book-entry only system is in effect with respect to the Offered Bonds, DTC or its successor and Direct DTC Participants and Indirect DTC Participants will determine the particular ownership interests of Offered Bonds of such maturity to be redeemed. Any failure of DTC or its successor, or of a Direct DTC Participant or Indirect DTC Participant, to make such determination will not affect the sufficiency or the validity of the redemption of Offered Bonds. See Appendix F- "BOOK-ENTRY ONLY SYSTEM".

*Notice of Redemption.* Notice of redemption is to be mailed, at least 15 days but not more than 30 days prior to the redemption date, to the Owner of each Offered Bond to be redeemed at the address that appears on the registration books, but failure to receive any such notice shall not affect the validity of the redemption proceedings. Any notice of redemption may provide that such redemption is conditional on the availability of sufficient moneys to pay the Redemption Price, plus interest accrued and unpaid to the redemption date. For so long as a book-entry only system is in effect with respect to the Offered Bonds, the Registrar will give notice of redemption to DTC or its nominee or its successor. Any failure of DTC or its successor, or of a Direct DTC Participant or Indirect DTC Participant, to notify a beneficial owner of an Offered Bond of any redemption will not affect the sufficiency or the validity of the redemption of such Offered Bond. See Appendix F- "BOOK-ENTRY ONLY SYSTEM".

Neither the Authority, nor the Trustee or Registrar, can give any assurance that DTC or its successor, the Direct DTC Participants or the Indirect DTC Participants will distribute such redemption notices to the beneficial owners of the Offered Bonds, or that they will do so on a timely basis.

## SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

The Offered Bonds will be issued under the second of two Authority loan programs. The First Program, which commenced in 1967, is no longer utilized, but any payments by the Boards thereunder will be superior to the Boards' payments under the Second Program, as described below under "First Program; Subordination of Second Program; No

Additional First Program Debt”.

The Bonds, including the Offered Bonds, constitute special obligations of the Authority. The principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Bonds shall be payable solely from the Annual Financing Charges, Legislative Appropriations and other moneys and securities held or set aside under the Resolution, subject to the application thereof to the purposes and on the conditions permitted by the Resolution. The Annual Financing Charges and Legislative Appropriations, and all rights under the Financing Agreements or otherwise to receive the same, and all moneys and Investment Obligations credited to the Funds and Accounts established by the Resolution, are pledged for the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Bonds in accordance with the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution. All covenants and agreements set forth in the Resolution to be performed on behalf of the Authority shall be for the equal benefit, protection and security of the Owners of all of the Bonds, except as expressly provided in or permitted by the Resolution.

**THE STATE OF TENNESSEE IS NOT LIABLE ON THE BONDS AND THE BONDS ARE NOT A DEBT OF THE STATE OF TENNESSEE. THE AUTHORITY HAS NO TAXING POWER.**

### **Bond Insurance**

Concurrently with the issuance of the Offered Bonds, Financial Security Assurance Inc. ("Financial Security") will issue Municipal Bond Insurance Policies (the "Policies") with respect to the 2007A Bonds maturing on and after 2010, the 2007B Bonds, and the 2007C Bonds maturing on and after 2010 (the "Insured Bonds"). The Policies guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policies included as an exhibit to this Official Statement.

For a description of the Insurer and a specimen of the Bond Insurance Policies, see Appendix I.

### **Flow of Funds**

All Annual Financing Charges and Legislative Appropriations held or collected by the Authority are required by the Resolution to be deposited to the General Fund, which shall be held by the State Treasurer or, at the direction of the State Treasurer, a separate custodian. However, in lieu of such deposit, the Authority may direct and cause any Board to transmit directly to the Trustee any amount of Annual Financing Charges and Legislative Appropriations payable by such Board that is required to be transferred by the Authority to the Trustee in the amounts and by the times required for purposes of the Debt Service Fund or Debt Service Reserve Fund.

All moneys credited to the General Fund shall be applied by the Authority in the following manner and order:

*First*, the Authority shall transfer to the Debt Service Fund such sums as are required to be deposited therein under the Resolution after giving effect to any such direct deposit; and

*Second*, the Authority shall transfer to the Debt Service Reserve Fund such sums as are required to be deposited therein pursuant to the Resolution after giving effect to any such direct deposit; provided, however, that no transfer shall be required prior to the date required, notwithstanding that as a result, lower priority transfers (described in the following paragraph) may be made at any time prior to higher priority transfers that could be but are not required to be made at the same time.

Any moneys credited to the General Fund in any month and not applied in such month, or required or otherwise expected to be applied thereafter in such month or in the next succeeding month, may be used for any lawful purpose of the Authority including, but not limited to, the payment of the principal of and premium, if any, and interest on Subordinated Obligations, the establishment of reserves for such payment, the payment or reimbursement of Administrative Expenses of the Authority, or the purchase or redemption of Bonds or Subordinated Obligations.

The Debt Service Fund shall be held by the Trustee or at the option of the Authority, unless there shall exist an Event of Default, by the State Treasurer or, at the direction of the State Treasurer, a separate custodian. Moneys credited to the Debt Service Fund shall be deposited in the following amounts and order of priority, except that deposits from excess Construction Fund moneys shall be applied as directed by the Authority:

*First*, at least one Business Day prior to each interest payment date, there shall be deposited in the Debt Service Fund an amount equal to, and which shall be applied to the payment of, the interest becoming due on the Outstanding Bonds on such interest payment date;

*Second*, at least one Business Day prior to each principal payment date, there shall be deposited in the Debt Service Fund an amount equal to, and which shall be applied to the payment of, the principal amount of Bonds (including the principal amount of any Put Bonds tendered for payment by the Authority and not purchased in lieu of redemption prior to the redemption date thereof) of the Outstanding Serial Bonds becoming due on such principal payment date; and

*Third*, at least one Business Day prior to each Sinking Fund Payment Date for the Term Bonds, there shall be deposited in the Debt Service Fund an amount equal to, and which shall be applied to the payment of, the Sinking Fund Installments becoming due upon the redemption of such Term Bonds on such Sinking Fund Payment Date.

### **Debt Service Reserve Fund**

The Resolution establishes a Debt Service Reserve Fund, which shall be held by the Trustee or, at the option of the Authority, unless there shall exist an Event of Default, by the State Treasurer or, at the direction of the State Treasurer, a separate custodian.

Within the Debt Service Reserve Fund there shall be established a separate Debt Service Reserve Account for each of the Projects. At the time of or prior to the delivery of each Series of Bonds, the Authority shall pay into each Debt Service Reserve Account from the proceeds of the sale of Bonds issued with respect to the Project to which such Debt Service Reserve Account relates, or from any other available source, a sum of money equal to the Debt Service Reserve Requirement with respect to the Bonds issued for such Project. In the event that moneys on deposit in a Debt Service Reserve Account are transferred to the Debt Service Fund as described below, then, within 5 months of the date of such transfer, the Authority shall deposit or cause to be deposited into such Debt Service Reserve Account moneys sufficient to cause the amount of moneys and value of Investment Obligations then on deposit in such Debt Service Reserve Account to be equal to the Debt Service Reserve Requirement applicable thereto.

Moneys credited to a Debt Service Reserve Account shall be used, except as hereinafter described, solely for the payment of the principal and Sinking Fund Installments, if any, and interest on the Bonds issued with respect to the Project to which such Account relates as the same become due and payable and with respect to which there are insufficient moneys available in the Debt Service Fund. If there are insufficient moneys for such purpose in the Debt Service Reserve Account with respect to the Project to which such Account relates, then moneys and Investment Obligations on deposit in or credited to the Debt Service Reserve Accounts which relate to other Projects of the Institution for which such Project was undertaken shall be applied on a pro rata basis (based on Debt Service Reserve Requirements) to cure such deficiency. If after making such application a deficiency still exists in the Debt Service Reserve Account with respect to a particular Project, then moneys and Investment Obligations on deposit in or credited to the Debt Service Reserve Accounts for (i) first, all Projects undertaken for all other Institutions under the supervision of a Board and (ii) if such moneys and Investment Obligations are insufficient, then all Projects undertaken for all Institutions under the supervision of the other Board, may be applied on a pro rata basis (based on Debt Service Reserve Requirements) to cure such deficiency. Moneys applied pursuant to the previous two sentences shall be restored to the respective Accounts from which they were obtained in the inverse order from which they were withdrawn and such Accounts are to be restored to the Debt Service Reserve Requirement therefor before moneys are credited to the Debt Service Reserve Account related to the Project for which there were insufficient moneys available in the Debt Service Fund.

Any amounts in a Debt Service Reserve Account at the end of any Bond Year in excess of the Debt Service Reserve Requirement with respect to the Bonds issued for a Project to which such Account relates shall be withdrawn from such Account and transferred to the Debt Service Fund and applied to the payment of the principal and Sinking Fund Installments of and interest on the Bonds relating to such Project, unless otherwise directed by the Authority.

If the Authority determines at any time that the moneys and value of Investment Obligations credited to any Debt Service Reserve Account are in excess of the Debt Service Reserve Requirement for the Bonds issued for the related Project, the Authority may transfer or, if applicable, direct the Trustee to transfer such excess to the Debt Service Fund and apply such excess to the payment of the principal and Sinking Fund Installments of and interest on Bonds relating to such Project.

In the event of the refunding of any Bonds, the Authority may withdraw from the Debt Service Reserve Fund all or

any portion of the amounts accumulated therein with respect to the Bonds being refunded and deposit such amounts with a Paying Agent to be held for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on the Bonds being refunded or apply such amounts to pay the costs of issuance of the Refunding Bonds, or, if not so applied, such amounts shall be applied in the same manner as provided for excess amounts in the Debt Service Reserve Fund; provided, however, that such withdrawal shall not be made unless (i) upon such refunding, the Bonds being refunded shall be deemed to have been paid within the meaning and with the effect provided in the Resolution, (ii) the amount and value of Investment Obligations remaining in such Debt Service Reserve Account shall not be less than the Debt Service Reserve Requirement for the Bonds issued for the related Project, and (iii) at the time of such withdrawal, there shall exist no deficiency in the Debt Service Fund.

In lieu of cash or Investment Obligations, the Authority may satisfy the Debt Service Reserve Requirement in part or in whole by maintaining a Reserve Fund Credit Facility. If a disbursement is made pursuant to a Reserve Fund Credit Facility, the Authority shall within 12 months either (i) reinstate the maximum limits of such Reserve Fund Credit Facility or (ii) deposit into the Debt Service Reserve Fund funds in the amount of the disbursement made under such Reserve Fund Credit Facility, or a combination of such alternatives, so that the amount of moneys and value of Investment Obligations and/or Reserve Fund Credit Facility in each Debt Service Reserve Account equals the Debt Service Reserve Requirement for the Bonds issued for the related Project. If a Debt Service Reserve Account is funded with any combination of moneys, Investment Obligations and/or one or more Reserve Fund Credit Facilities, then any withdrawal to satisfy a deficiency in the Debt Service Fund shall be made from such (i) moneys or Investment Obligations and (ii) Reserve Fund Credit Facilities (and among such Reserve Fund Credit Facilities) on a pro rata basis, except or unless otherwise required or permitted by the provider or providers of such Reserve Fund Credit Facilities.

#### *Debt Service Reserve Fund Credit Facility*

The Authority has obtained a commitment from Financial Security Assurance Inc. (the “Insurer”) to issue insurance policies (the “Debt Service Reserve Insurance Policies”), constituting Reserve Fund Credit Facilities under the Resolution, in lieu of a sum of money equal to the Debt Service Reserve Requirement for each issue of the Offered Bonds.

Each Debt Service Reserve Insurance Policy will be issued in the face amount equal to the Debt Service Reserve Requirement for the related series of the Offered Bonds and the premium thereof will be fully paid by the Authority at the time of delivery of the Offered Bonds. The coverage of each Debt Service Reserve Insurance Policy will decrease to the extent the Debt Service Reserve Requirement for the related series of the Offered Bonds decreases or to the extent of any draw on the Debt Service Reserve Insurance Policy that is not reimbursed by the Authority, as provided in the Debt Service Reserve Insurance Policy.

For a description of the Insurer and a specimen of the Debt Service Reserve Insurance Policies, see Appendix I

#### **Additional Bonds**

Additional Bonds may be issued under the Resolution from time to time in Series, including refunding Outstanding Bonds, but only upon, among other things:

1. Receipt by the Trustee and the Registrar of a Counsel's Opinion to the effect that (i) the Authority has the right and power under the Act as amended to the date of such Opinion to adopt the Resolution (with such approvals as may be required by the Act as so amended), and the Resolution has been duly and lawfully adopted by the Authority (and such approvals given), is in full force and effect and is valid and binding upon the Authority; (ii) the Resolution creates the valid pledge which it purports to create of the Annual Financing Charges, Legislative Appropriations, and all rights under the Agreements or otherwise to receive the same, moneys and securities held or set aside under the Resolution, subject to the application thereof to the purposes and on the conditions permitted by the Resolution; and (iii) the Bonds of such Series are valid and binding obligations of the Authority as provided in the Resolution and entitled to the benefits of the Resolution and of the Act as amended to the date of such Counsel's Opinion, and such Bonds have been duly and validly authorized and issued in accordance with law, including the Act as amended to the date of such Counsel's Opinion, and in accordance with the Resolution.



2. Receipt by the Trustee and the Registrar of a certificate of the Authority stating that:

- (a) the principal amount of the Bonds then to be issued, together with the principal amount of the Bonds theretofore issued, will not exceed in aggregate principal amount any limitation thereon imposed by law;
- (b) the Authority is not in default in the performance of any other covenants, conditions, agreements or provisions contained in the Resolution, including but not limited to that there is no deficiency in the amounts required by the Resolution to be paid into the Debt Service Fund except, in the case of Refunding Bonds, if, upon the application of the proceeds of such Bonds or upon the issuance and delivery of such Bonds, all such defaults shall be cured;
- (c) the amount on deposit in the Debt Service Reserve Fund, upon the issuance and delivery of any such Series of Bonds, shall not be less than the Debt Service Reserve Requirement;
- (d) the Financing Agreements obligate the Boards to pay, in the aggregate, Annual Financing Charges with respect to Projects for which Bonds have been issued and the additional Bonds being issued sufficient in amount, together with capitalized interest, to pay as the same shall become due the principal, Sinking Fund Installments, if any, and Redemption Price, if applicable, of and interest on the Bonds then Outstanding and the additional Bonds being issued; and
- (e) the provisions of the Act authorizing the Boards to deduct from amounts appropriated by the General Assembly of the State for the operation and maintenance of the Institution for which each Project is undertaken and pay to the Authority such amount or amounts as may be required to make up any deficiencies in the Fees and Charges and other moneys available for the purpose of paying Annual Financing Charges due the Authority have not been repealed or amended to the detriment of Bondowners.

Additional Bonds are required to be authorized by Supplemental Resolution, which may delegate to authorized officers the power to determine, supplement, modify or amend specified details of such Bonds by means of a Series Certificate, which shall be filed with the Trustee and deemed for all purposes of the Resolution to have been adopted by the Authority and to be a part of the Supplemental Resolution to which it relates.

Additional Bonds may take the form of and have features incident to, among other things, Capital Appreciation Bonds, Variable Interest Rate Bonds, or Put Bonds, and in connection with the issuance of any Bonds the Authority may enter into Credit Facilities and Qualified Swaps. For a description of certain related provisions that may be included in Supplemental Resolutions, see Appendix E - "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION - Certain Provisions Relating to Credit Facilities, Qualified Swaps and Other Arrangements".

#### **Subordinated Obligations; Commercial Paper**

The Authority also reserves in the Resolution the right to issue or enter into Subordinated Obligations to be paid from amounts on deposit in the General Fund so long as any such Subordinated Obligations are not entitled, except as otherwise provided therefor by the express terms of the Resolution, to a charge or lien or right prior or equal to the charge or lien created by, or prior or equal to the rights of the Owners of the Bonds provided by, the Act and the Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Flow of Funds".

The Authority has authorized Commercial Paper to be issued from time to time under the Commercial Paper Resolution, in an aggregate amount outstanding at any time not to exceed \$150,000,000 (\$200,000,000 if the liquidity facility coverage is increased), including both taxable and tax-exempt, to fund Project Costs, pay the principal of outstanding Commercial Paper and repay amounts advanced and loans made pursuant to any credit or liquidity facility provided with respect to the Commercial Paper (each a "Liquidity Facility") but not fees and expenses payable thereunder. Generally, Commercial Paper is intended to be issued on an interim basis in anticipation of the issuance of Bonds, although in some cases the Authority may retire Commercial Paper from other available sources.

All Commercial Paper constitutes Subordinated Obligations under the Resolution. The principal of the Commercial Paper, to the extent not paid from proceeds of other Commercial Paper or amounts drawn on a Liquidity Facility, and interest on the Commercial Paper, to the extent not paid from proceeds of draws on the Liquidity Facility, is payable from amounts to be made available therefor by the Authority. The Authority has entered into an agreement with WestLB, AG, New York Branch to provide the Liquidity Facility. Such Liquidity Facility permits, and the Commercial Paper Resolution requires, drawings thereunder (subject to conditions precedent) to pay the principal of and interest on Commercial Paper to

the extent not paid from, in the case of principal, proceeds of other Commercial Paper or, in the case of both principal and interest, other funds made available by the Authority for the payment thereof. With the consent of the Authority, additional banks may be added as liquidity providers under the Liquidity Facility, in which case the obligations of all banks thereunder will be several and not joint. The Liquidity Facility will expire at the close of business on March 7, 2011, unless extended or terminated prior to such date in accordance with its terms.

On January 1, 2007, Commercial Paper was outstanding in the aggregate principal amount of \$140,552,000. Approximately \$38,427,603 principal amount of Commercial Paper will be retired from proceeds of the 2007A Bonds and 2007B Bonds. See “PURPOSES OF THE OFFERED BONDS – Application of the 2007A Bond and 2007B Bond Proceeds.”

### **Annual Financing Charges and Administrative Fees**

The Financing Agreements require that as long as any Debt remains outstanding for any Project, Annual Financing Charges shall be established and revised by the Authority from time to time in such amounts, payable at such times, as shall at all times be sufficient to enable the Authority (i) to pay the principal of and premium, if any, and interest on such Debt as and when the same become due and payable, (ii) to pay or replenish reserves therefor as and when required by the Resolution, and (iii) to make any other payments required to be made by or on behalf of the Authority under or pursuant to the Resolution.

The Financing Agreements also require that, in addition to Annual Financing Charges, the Authority may establish and revise from time to time, and the Boards shall pay, fees (Administration Fees) to compensate the Authority for costs relating to (i) the issuance and payment of Debt and (ii) the administration of the Agreement and the Resolution.

The Boards covenant and agree in the Financing Agreements to establish and collect Fees and Charges at each Institution at a level sufficient to produce in each Fiscal Year no less than two times the amount required for the payment of the aggregate (without duplication) of (i) all Annual Financing Charges in such Fiscal Year payable with respect to all Projects for the Institution, plus (ii) all First Program Annual Financing Charges in such Fiscal Year payable with respect to all First Program Projects for the Institution, plus (iii) the aggregate of all prior charges, pledges, liens and claims on or payable from said Fees and Charges in such Fiscal Year with respect to the Institution, including but not limited to all prior charges, pledges, liens and claims on or payable from the First Program Fees and Charges in such Fiscal Year with respect to the Institution.

The Boards are required by the Financing Agreements to pay to the Authority all Annual Financing Charges and Administrative Fees in such amounts, at such times, in such manner and at such places as shall be specified in writing from time to time by the Authority. Under the Financing Agreements, the obligation of the Boards to pay Annual Financing Charges and Administrative Fees is absolute and unconditional, and Annual Financing Charges and Administrative Fees are required to be paid in full without set-off or counterclaim.

Annual Financing Charges and Administrative Fees payable with respect to a Project are required under the Financing Agreements to be paid by the Boards, as and when the same become due, only from Fees and Charges of the Institution for which the Project is undertaken or used. Each Board may pledge, assign or otherwise use or encumber any Fees and Charges relating to an Institution if the aggregate of the Fees and Charges collected by the Institution in the preceding Fiscal Year is no less than two times the amount required for the payment of the aggregate (without duplication) of (i) the maximum amount of the Annual Financing Charges payable and projected to be payable with respect to all Projects (including the Project to be approved) for the Institution in any succeeding Fiscal Year, plus (ii) the maximum amount payable by the Board as First Program Annual Financing Charges with respect to all First Program Projects for the Institution in any succeeding Fiscal Year, plus (iii) the aggregate of all prior charges, pledges, liens and claims on or payable from said Fees and Charges with respect to the Institution in any succeeding Fiscal Year, including but not limited to all prior charges, pledges, liens and claims on or payable from the First Program Fees and Charges with respect to the Institution.

For a description of the governmental entity termination provisions of the Governmental Entity Review Law and their effect on the Bonds, see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Termination of Existence.”

## **Legislative Appropriations**

In accordance with the Act, the Financing Agreements provide that if any Annual Financing Charges or Administrative Fees shall not be paid by a Board when due and payable with respect to a Project, or if the Board shall notify the Authority of any inability to make such payment from Fees and Charges, then the Board shall forthwith deduct from the amounts appropriated by the General Assembly of the State of Tennessee for the operation and maintenance of the Institution for which such Project was undertaken or used and pay to the Authority such amount or amounts as may be required to make the Board current with respect to the unpaid Annual Financing Charges and Administrative Fees. Further, the Boards agree in the Financing Agreements that the Commissioner of Finance and Administration, or his successor, after notice from the Authority that the Board has failed to pay Annual Financing Charges or Administrative Fees due and payable with respect to a Project, shall, to the extent permitted by law, deduct from the amounts appropriated by the General Assembly of the State of Tennessee for the operation and maintenance of the Institution for which such Project was undertaken or used the amount or amounts as may be required to make the Board current with respect to the unpaid Annual Financing Charges and Administrative Fees.

A significant source of funding for the State's public institutions of higher education has been and continues to be annual appropriations made by the General Assembly of the State. See "STATEMENT OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE FOR THE LAST TEN YEARS" in Appendix B and "TENNESSEE PUBLIC HIGHER EDUCATION." However, the General Assembly is under no obligation to continue to make appropriations for the operation and maintenance of any Institution or of the Institutions generally, or to do so in any particular amount. See, however, "Additional Bonds" above and "Statutory Covenant" below. The State of Tennessee is not liable on the Bonds and the Bonds are not a debt of the State of Tennessee.

## **Certain State Law Bondowner Remedies**

The State has waived the Authority's immunity from suit and extended its consent to be sued for actions on both the Bonds and the First Program bonds, but has not done so for other contractual obligations of either the Authority or the Boards, including the Financing Agreements and the First Program Financing Agreements. Current State law provides that monetary claims against the State (including, for this purpose, the Authority and the Boards) for breach of its contractual obligations and certain other causes where sovereign immunity has not been waived may be heard and determined exclusively in the forum of the Tennessee Claims Commission, an administrative tribunal, where the Authority or the Boards may be liable only for actual damages and certain costs.

Under the State Constitution, public money may be expended only pursuant to an appropriation made by law. Such expenditures include, but are not limited to, funding any judgment in the Tennessee Claims Commission. The General Assembly in 2001 confirmed that the earnings, revenues, and assets of the Authority are continuously appropriated for expenditures authorized by or pursuant to the Act, which includes debt service on First Program Bonds, Second Program Bonds, and Commercial Paper. That legislation also confirmed that the earnings, revenues or other assets of any public higher education entity whose contracts or agreements support the payment of the Authority's debt service are continuously appropriated for expenditures in accordance with or pursuant to such contracts or agreements, which include the First Program Financing Agreements and the Second Program Financing Agreements. Sovereign immunity or other legal principles may bar actions to compel the General Assembly to appropriate moneys or to compel the payment of appropriated moneys.

For a description of remedies available to Bondowners under the Resolution, see Appendix E – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Remedies".

## **Termination of Existence**

The Governmental Entity Review Law provides for the termination of various governmental entities on specified dates. Those dates are June 30, 2008 in the case of the Authority, June 30, 2008 in the case of the Board of Regents, and June 30, 2007 in the case of the Board of Trustees. The law also provides that if the General Assembly does not extend the termination date of an entity, the existence of the entity will continue for an additional year without any diminution, reduction or limitation of its powers. However, the State is required to preserve the rights of the holders of any outstanding indebtedness of the entity at the time of termination.

**Statutory Covenant**

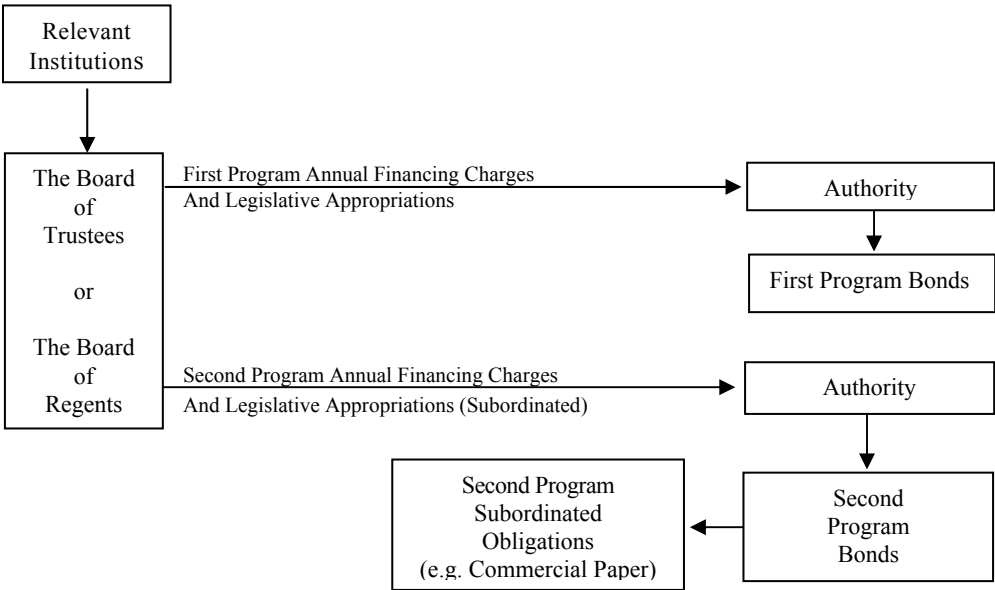
In accordance with the provisions of the Act, the Authority, on behalf of the State, in the Resolution pledges to and agrees with the Owners of the Bonds that the State will not limit or alter the rights vested by the Act in the Authority to fulfill the terms of any agreements made with Bond Owners, or in any way impair the rights and remedies of such Owners until the Bonds, together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such Owners, are fully met and discharged.

**First Program; Subordination of Second Program; No Additional First Program Debt**

The Authority established the First Program, its first loan program for the two Boards (or their predecessors), in 1967. The First Program operated under and pursuant to the First Program General Bond Resolution of the Authority, and the First Program Financing Agreements (and their antecedents) between the Authority and the two Boards (or their predecessors). The Authority and the Boards have replaced this program with a new Second Program governed by updated and more flexible resolutions and financing agreements, i.e., the Resolution and Financing Agreements as described herein.

The obligation of each Board to pay Annual Financing Charges and Administrative Fees, and the pledge of Annual Financing and Legislative Appropriations, under the Financing Agreement, and the payment thereof under and pursuant to the Financing Agreement, is subordinate in all respects to the obligation of the Board to pay First Program Annual Financing Charges and First Program administrative fees, and the pledge of First Program Annual Financing Charges and First Program Legislative Appropriations, and the payment thereof, under and pursuant to the First Program Financing Agreement.

This subordination is illustrated as follows subject in all respects to the description above:



No additional bonds or notes may be issued under or pursuant to the First Program General Bond Resolution or may be secured by or payable from payments made by the Boards to the Authority under or pursuant to the First Program Financing Agreements. Giving the effect of the issuance of the 2007C Bonds, there will be outstanding under the First Program General Bond Resolution as of January 23, 2007 \$43,469,583 aggregate principal amount of First Program Bonds, of which \$31,640,000 will be financially defeased. There are no First Program notes outstanding.

**THE AUTHORITY**

The Authority, created in 1965 under the Act, is a corporate governmental agency and instrumentality of the State of Tennessee. In addition to its authority to issue bonds and notes to finance Projects, the Authority in 1980 was empowered

by the General Assembly of the State of Tennessee to issue bonds or notes to provide funds for the making of student loans by the Tennessee Student Assistance Corporation. The principal amounts of such bonds or notes issued may not exceed \$5,000,000 and must be secured separate and apart from any bonds or notes of the Authority issued to provide funds to finance Projects. As of the date of this Official Statement, no bonds or notes had been issued for the making of student loans.

In 1999, the General Assembly empowered the Authority to issue Qualified Zone Academy Bonds (QZAB). QZABs are issued under the provisions of the Authority's Qualified Zone Academy Bonds First Program Resolution, are not supported by either the First Program or Second Program Financing Agreements, and are not secured by either the First Program or Second Program General Bond Resolution. QZABs are part of a Federal government program in which, generally, a Federal income tax credit is given to investors in lieu of the payment of interest on the bonds.

Under the program, loans with local governments are direct general obligations of the local government for the payment of which as to principal, the full faith and credit of the local government are pledged. As additional security for the loans, there is also pledged the borrower's unobligated portions of State taxes that are by statute to be shared with the local governments. Each borrower's annual loan repayments are deposited into sinking fund accounts invested with the State Treasurer and, together with interest thereon, are held to be applied to the payment of principal of the QZABs at maturity or upon redemption. As of January 1, 2007, the total par of QZABs outstanding is \$57,210,000 and the fund balance of pledged sinking fund accounts total 18,196,606.

The Authority is also required to approve any borrowings consummated by any of the Institutions, whether such borrowings are made through the Authority or independently, unless such borrowings are provided solely through general obligation bonds of the State or legislative appropriations.

### **Membership of the Authority**

The powers of the Authority, as defined in the Act, are vested in and exercised by its members who consist of the Governor, the Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of Finance and Administration, the Chancellor of the Tennessee Board of Regents and the President of The University of Tennessee. The Governor serves as Chairman of the Authority, and the Comptroller of the Treasury serves as the Secretary.

### **Outstanding Indebtedness of the Authority**

Prior to the issuance of the Offered Bonds, the Authority has issued, and there is outstanding under the Resolution, Bonds as follows:

	<b>Outstanding as of January 23, 2007 (Unaudited)</b>
<b>Higher Educational Facilities Second Program Bonds</b>	
1998 Series A	\$ 3,310,000
1998 Series B (Federally Taxable)	1,095,000
1998 Refunding Series C	2,850,000
1998 Refunding Series D	20,350,000
2000 Series A	8,395,000
2000 Series B (Federally Taxable)	10,170,000
2002 Series A	25,095,000
2004 Refunding Series A	67,130,000
2004 Series B	57,065,000
2004 Series C (Federally Taxable)	36,100,000
2005 Refunding Series A	100,540,000
2005 Refunding Series B (Federally Taxable)	30,960,000
2006 Series A	53,820,000
2006 Series B	12,485,000
2007 Series A	33,730,000
2007 Series B (Federally Taxable)	14,040,000
2007 Refunding Series C	<u>89,940,000</u>
Total Outstanding Second Program Bonds	<u>\$567,075,000</u>

In addition, the Authority has also issued bonds under the First Program General Bond Resolution. Certain bonds were financially defeased in 1998 and 2004 by a refunding bond issue of the Authority and in 1999 with proceeds of bonds issued by the Health, Educational and Housing Facilities Board of the County of Knox, Tennessee, for University Health System, Inc., in Knoxville, Tennessee, in connection with the latter's acquisition of The University of Tennessee's Memorial Research Center and Hospital. The outstanding amounts of the First Program Bonds are as follows:

<b>Higher Educational Facilities First Program Bonds</b>	<b>Outstanding as of January 23, 2007 (Unaudited)</b>
1976 Series B Bonds	\$ 861,000
1987 Series A Bonds	4,080,000 <sup>1</sup>
1989 Series (College Savings Bonds)	9,768,583 <sup>2</sup>
1996 Series B	21,625,000 <sup>3,6</sup>
1996 Series C	4,045,000 <sup>4</sup>
1996 Refunding Series D	3,090,000 <sup>5,6</sup>
Total Outstanding First Program Bonds	<u>\$43,469,583</u>

<sup>1</sup>The entire amount of this series was financially defeased and escrowed to maturity through May 1, 2012.

<sup>2</sup>Includes the accretion as of January 1, 2007 of the College Savings Bonds.

<sup>3</sup>Of this amount, \$15,485,000 was financially defeased and escrowed to maturities through May 1, 2011, and the balance will be redeemed on February 23, 2007 as described under "PURPOSES OF THE OFFERED BONDS – Plan of Refunding and Application of 2007C Bond Proceeds.

<sup>4</sup>The entire amount of this series will be redeemed on February 23, 2007 as described under "PURPOSES OF THE OFFERED BONDS – Plan of Refunding and Application of 2007C Bond Proceeds.

<sup>5</sup>The entire amount of this series was financially defeased and escrowed to maturities through May 1, 2011.

<sup>6</sup>The Authority has reserved the right to call the financially defeased escrowed-to-maturity bonds for redemption prior to their maturities in accordance with the terms thereof.

The Authority also has issued and there are outstanding Commercial Paper as described under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Subordinated Obligations; Commercial Paper".

The Authority continually monitors its debt structure and capital requirements, and depending on such requirements, financial market conditions and other factors, may issue additional bonds or notes and may refund (whether or not for savings) any of its outstanding bonds and notes. For additional financial information concerning the Authority, see Appendix A hereto.

## **TENNESSEE PUBLIC HIGHER EDUCATION**

Public higher education in Tennessee is coordinated by the Tennessee Higher Education Commission and consists of two systems: The University of Tennessee campuses governed by The University of Tennessee Board of Trustees; and the state universities, community colleges, technical institutes and state technology centers governed by the Tennessee Board of Regents of the State University and Community College System of Tennessee.

The Commission consists of the three Constitutional Officers (Comptroller of the Treasury, Secretary of State, State Treasurer), nine lay members with six years terms appointed by the Governor, and two student members appointed for two years terms (one from The University of Tennessee system and one from the Board of Regents system; one voting each year). It develops a statewide Master Plan used in making policy recommendations concerning such matters as the need for existing degree programs, the development of new degree programs, and the review of tuition and fees. The Commission is charged with conducting annual reviews and licensing non-accredited, degree-offering postsecondary educational institutions, has the responsibility for studying the use of public funds appropriated for higher education, and recommends the appropriations of state funds for public higher education institutions.

The Boards are governing bodies for all public higher education in Tennessee. They have entered into both First Program Financing Agreements and Second Program Financing Agreements, by which the Authority provides funding for Projects.

The Board of Regents was created by the General Assembly in 1972 to govern the State University and Community College System, which currently includes 6 universities, 13 community colleges, and 28 state technology centers. Institutions governed by the Board of Regents are: Austin Peay State University, East Tennessee State University, Middle Tennessee State University, Tennessee State University, Tennessee Technological University, University of Memphis,

Chattanooga State Technical Community College, Cleveland State Community College, Columbia State Community College, Dyersburg State Community College, Jackson State Community College, Motlow State Community College, Nashville State Community College, Northeast State Technical Community College, Pellissippi State Technical Community College, Roane State Community College, Southwest Tennessee Community College, Volunteer State Community College, and Walters State Community College, each of which is considered under the Act and the First and Second Program Financing Agreements to be an "Institution".

The University of Tennessee was founded in 1794 as Blount College. The University was designated in 1869 as the Federal land-grant institution in Tennessee. The Board of Trustees of The University of Tennessee is the governing body of The University of Tennessee. The University has four campuses (at Knoxville, Martin, Memphis, and Chattanooga), with 33 colleges, schools, and divisions, all of which constitute a single "Institution" under the Act and the First and Second Program Financing Agreements.

For statements of outstanding debt by Institution, debt service coverage, fees and charges, appropriations and debt service by Institution, and certain other statistical information, see Appendix B hereto.

## **REVIEW AND APPROVAL PROCESS FOR FINANCING OF PROJECTS BY AUTHORITY**

For the purpose of carrying out the programs authorized by the Act and to permit the Authority to undertake the financing of Projects, the Authority's existing policy generally requires the review and approval by different bodies of State government prior to the Authority's approval of a project undertaken for either the Board of Trustees or the Board of Regents.

The review and approval process is undertaken in the following sequence:

- (1) A Project request is initiated by an Institution. Such Project is expected to relate to that Institution's five-year capital construction plan, if applicable.
- (2) The Project is reviewed by the Board of Trustees or the Board of Regents, as the case may be, and, if approved, is forwarded to the Tennessee Higher Education Commission and to the Authority.
- (3) The Tennessee Higher Education Commission undertakes a review of the Project to determine its educational need and compatibility with the Institution's master plan. The Commission then forwards its comments and recommendations to the Commissioner of Finance and Administration and the State Building Commission.
- At the same time, the Authority staff undertakes a review of the Project's financial feasibility to determine if sufficient revenue has been pledged to cover the debt service for that project. The staff then forwards its comments and recommendations to the State Building Commission.
- (4) The Project is then presented to the State Building Commission for approval of funding. The State Building Commission is an agency of the State of Tennessee whose permanent members consist of the Governor, Lieutenant Governor, Speaker of the House of Representatives, Comptroller of the Treasury, Secretary of State, State Treasurer and Commissioner of Finance and Administration. The State Architect serves as its Chief Staff Officer.
- (5) Upon approval by the State Building Commission, the Project is forwarded to the Authority which considers the Project for inclusion under the Second Program Financing Agreement with the Board of Trustees or the Board of Regents, as the case may be.
- (6) Upon approval for funding by the Authority, the Project proceeds immediately to detailed architectural design. When planning and specifications are complete, they are then forwarded to the State Architect's office for review and submission to the State Building Commission for approval.

Institutions may bring financings for the purchase of large equipment and computer software directly to the Authority. Depending on the average life of the item financed it may be amortized through the commercial paper program or through long-term or short-term fixed rate debt.

## **RATINGS**

Fitch, Moody's Investors Service Inc. and Standard & Poor's Ratings Services have given the Offered Bonds ratings of AA-, Aa3, and AA respectively. It is anticipated that upon closing, the 2007A Bonds and 2007C Bonds maturing on and after 2010, and the 2007B Bonds, will be rated AAA, Aaa and AAA respectively, based on the purchase of insurance from Financial Security Assurance Inc. Such ratings reflect only the respective views of such organizations and an explanation of the significance of a rating may be obtained only from the rating agency furnishing the same. There is no assurance that any rating will be maintained for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency if, in its judgment, circumstances so warrant.

## **LITIGATION**

There is no controversy or litigation of any nature now pending or threatened against the Authority to restrain or enjoin the issuance, sale, execution or delivery of the Offered Bonds or the financing of the Projects or the application of the proceeds of the Offered Bonds, or in any way contesting or affecting the validity of the Offered Bonds or any proceedings of the Authority taken with respect to the issuance or sale thereof, the Financing Agreements, or the pledge or application of any monies or security provided for the payment of the Offered Bonds or the existence of powers of the Authority, the Board of Regents or the Board of Trustees. The Board of Regents and the Board of Trustees are engaged in litigation of various natures. However, there is no litigation pending or threatened to restrain or enjoin the financing of the Projects or contesting or affecting the validity of any proceedings of the Board of Regents or the Board of Trustees taken with respect to the Financing Agreements, or the pledge or application of any monies or security provided for the payment of the Annual Financing Charges.

## **TAX MATTERS**

### **Federal Tax Matters – 2007A Bonds and 2007C Bonds**

#### *General*

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2007A Bonds and 2007C Bonds (collectively, the “Federally Tax-Exempt Bonds”) is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the Federally Tax-Exempt Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, the Boards, and others in connection with the Federally Tax-Exempt Bonds, and Bond Counsel has assumed compliance by the Authority and the Boards with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Federally Tax-Exempt Bonds from gross income under Section 103 of the Code.

Bond Counsel expresses no opinion regarding any other Federal tax consequences with respect to the Federally Tax-Exempt Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation or otherwise. Bond Counsel expresses no opinion as to the effect of any action hereafter taken or not taken, in reliance upon an opinion of other counsel, on the exclusion from gross income for Federal income tax purposes of interest on the Federally Tax-Exempt Bonds.

For the proposed form of opinion of Bond Counsel relating to Federal tax matters, see Appendix H.

#### *Certain Ongoing Federal Tax Requirements and Covenants*

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Federally Tax-Exempt Bonds in order that interest on the Federally Tax-Exempt Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and



expenditure of gross proceeds of the Federally Tax-Exempt Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Federally Tax-Exempt Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority and the Boards have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Federally Tax-Exempt Bonds from gross income under Section 103 of the Code.

#### *Certain Collateral Federal Tax Consequences*

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Federally Tax-Exempt Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Federally Tax-Exempt Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Federally Tax-Exempt Bonds.

Prospective owners of the Federally Tax-Exempt Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Federally Tax-Exempt Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

#### *Original Issue Discount*

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Federally Tax-Exempt Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Federally Tax-Exempt Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Federally Tax-Exempt Bonds is expected to be the initial public offering price set forth on the inside cover page of this Official Statement. Bond Counsel is of the opinion that, for any Federally Tax-Exempt Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Federally Tax-Exempt Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner’s adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

#### *Bond Premium*

In general, if an owner acquires a Federally Tax-Exempt Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on that Federally Tax-Exempt Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Federally Tax-Exempt Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond, determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual

period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost.

Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange or other disposition of Premium Bonds.

#### *Possible Government Action*

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. In addition, the Internal Revenue Service has established an expanded audit program for tax-exempt bonds. There can be no assurance that legislation enacted or proposed or an audit initiated by the Internal Revenue Service, involving either the Federally Tax-Exempt Bonds or other tax-exempt bonds, after the date of issuance of the Federally Tax-Exempt Bonds will not have an adverse effect on the tax-exempt status or market price of the Federally Tax-Exempt Bonds.

#### *Backup Withholding*

Under the Code, interest on tax-exempt obligations such as the Federally Tax-Exempt Bonds paid after March 31, 2007 to certain recipients such as individuals is subject to backup withholding if certain information reporting requirements are not met. Such recipients are required to provide certain identifying information such as their taxpayer identification numbers. Failure to comply with the reporting requirement does not affect the exclusion of the interest on the Federally Tax-Exempt Bonds from gross income for Federal income tax purposes. However, such failure would cause such paid interest to be subject to backup withholding. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner's Federal income tax provided the required information is furnished to the Internal Revenue Service.

### **Federal Tax Matters – 2007B Bonds**

#### *General*

In the opinion of Bond Counsel to the Authority, interest on the 2007B Bonds (the “Federally Taxable Bonds”) is included in gross income for Federal income tax purposes pursuant to the Code. Bond Counsel expresses no opinion regarding any other Federal tax consequences with respect to the Federally Taxable Bonds.

The following discussion is a brief summary of certain Federal income tax consequences of the acquisition, ownership and disposition of Federally Taxable Bonds by original purchasers of the Federally Taxable Bonds who are “U.S. Holders”, as defined herein. This summary does not discuss all of Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules.

Holders of Federally Taxable Bonds should consult with their own tax advisors concerning the Federal income tax and other consequences with respect to the acquisition, ownership and disposition of the Federally Taxable Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

#### *Original Issue Discount*

In general, if Original Issue Discount (“OID”) on a Federally Taxable Bond is greater than a statutorily defined *de minimis* amount, a holder of such Federally Taxable Bond having a maturity of more than one year from its date of issue must include in federal gross income (for each day of the taxable year, or portion of the taxable year, in which such holder holds such Federally Taxable Bond) the daily portion of OID, as it accrues (generally on a constant yield method) and regardless of the holder's method of accounting. “OID” is the excess of the “stated redemption price at maturity” over the “issue price”. “Issue price” means the first price at which a substantial amount of the Federally Taxable Bond is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). “Stated redemption price at maturity” means the sum of all payments, other than “qualified stated interest”, provided by such Federally Taxable Bond. “Qualified stated interest” is stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate. A holder may irrevocably elect to include in gross income all interest that accrues on a Federally Taxable Bond using the constant-yield method, subject to certain modifications.

### *Original Issue Premium*

In general, if a Federally Taxable Bond is originally issued for an issue price (excluding accrued interest) that reflects a premium over the sum of all amounts payable on the Federally Taxable Bond other than “qualified stated interest” (a “Taxable Premium Bond”), that Taxable Premium Bond will be subject to Section 171 of the Code, relating to bond premium. In general, the holder of a Taxable Premium Bond may either deduct the bond premium under Section 171(a)(1) or may elect under Section 171(c) of the Code to amortize that premium as “amortizable bond premium” over the remaining term of the Taxable Premium Bond, determined based on constant yield principles (in certain cases involving a Taxable Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the highest yield on such bond). Any such election is generally irrevocable and applies to all debt instruments of the holder (other than tax-exempt bonds) held at the beginning of the first taxable year to which the election applies and to all such debt instruments thereafter acquired. Under certain circumstances, the holder of a Taxable Premium Bond may realize a taxable gain upon disposition of the Taxable Premium Bond even though it is sold or redeemed for an amount less than or equal to the holder's original acquisition cost.

### *Disposition and Defeasance*

Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Federally Taxable Bond, a holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such holder's adjusted tax basis in the Federally Taxable Bond. The Authority may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the Federally Taxable Bonds to be deemed to be no longer outstanding under the Resolutions (a “defeasance”). See Appendix E – SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Defeasance”. For federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the Federally Taxable Bonds subsequent to any such defeasance could also be affected.

### *Backup Withholding and Information Reporting*

In general, information reporting requirements will apply to non-corporate holders of Federally Taxable Bonds with respect to payments of principal, payments of interest and the proceeds of the sale of Federally Taxable Bonds before maturity within the United States. Backup withholding may apply to holders of Federally Taxable Bonds under Section 3406 of the Code unless the holder: (i) is a corporation or other exempt recipient and, when required, demonstrates that fact; or (ii) provides a correct taxpayer identification number, certifies under penalties of perjury when required that such holder is not subject to backup withholding, and has not been notified by the Internal Revenue Service that it failed to report all interest and dividends required to be shown on its federal income tax returns. Any amounts withheld under the backup withholding rules from a payment to a holder, and which constitutes over-withholding, would be allowed as a refund or a credit against such holder's United States federal income tax provided the required information is furnished to the Internal Revenue Service.

### *U.S. Holders*

The term “U.S. Holder” means a beneficial owner of a Federally Taxable Bond that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate, the income of which is subject to United States federal income taxation regardless of its source, or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

### *IRS Circular 230 Disclosure*

The advice under the caption, “Federal Tax Matters – 2007 B Bonds,” concerning certain income tax consequences of the acquisition, ownership and disposition of the Federally Taxable Bonds, was written to support the marketing of the Federally Taxable Bonds. To ensure compliance with requirements imposed by the Internal Revenue Service, each prospective purchaser of the Federally Taxable Bonds is advised that (i) any federal tax advice contained in this Official Statement (including any attachments) or in writings furnished by Bond Counsel to the Authority (including any opinions of Bond Counsel to the Authority) is not intended to be used, and cannot be used by any holder of a Federally Taxable Bond, for the purpose of avoiding penalties that may be imposed on the holder under the Code, and (ii) a holder of a Federally Taxable Bond should seek advice from an independent tax advisor based on the holder's particular circumstances.

## **State of Tennessee Tax Matters**

In the opinion of Bond Counsel, under existing laws of the State, the Offered Bonds and the interest thereon are exempt from taxation by the State or any county, municipality or taxing district of the State, except for estate and gift taxes and taxes on transfers, and except to the extent such interest may be included within the measure of privilege taxes imposed pursuant to the laws of the State.

Bond Counsel expresses no opinion regarding any other state or local tax consequences with respect to the Offered Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation or otherwise. Bond Counsel expresses no opinion as to the effect of any action hereafter taken or not taken, in reliance upon an opinion of other counsel, under state and local tax law.

For the proposed form of opinion of Bond Counsel relating to State tax matters, see Appendix H.

## **FINANCIAL ADVISOR**

Public Financial Management, Inc. (“PFM”) is employed by the Authority to perform professional services in the capacity of financial advisor. In its role as financial advisor to the Authority, PFM has provided advice on the plan of financing and structure of the Offered Bonds, reviewed certain legal and disclosure documents, including this Official Statement, for financial matters, and verified the results of the competitive sale of the Offered Bonds. PFM has not independently verified the factual information contained in this Official Statement, but relied on the information supplied by the Authority and other sources and the Authority’s certification as to the Official Statement.

## **VERIFICATION**

The accuracy of the arithmetical computations of the adequacy of the cash and maturing principal and interest earned on the obligations deposited under the Refunding Trust Agreement to pay, when due, the principal of, premium if any, and interest on the Refunded Bonds and arithmetical computations supporting the conclusion that the 2007C Bonds are not “arbitrage bonds” within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, will be verified by Causey Demgen & Moore, Inc., a firm of independent certified public accountants.

## **CERTIFICATION AS TO OFFICIAL STATEMENT**

The Authority will confirm by a certificate signed on its behalf by the Comptroller of the Treasury and delivered at the closing for the Offered Bonds, to the effect that at the time of the execution of the Bond Purchase Agreement, and at the time of the closing, (i) the information and statements, including financial statements, of or pertaining to the Authority contained in this Official Statement, were and are correct in all material respects; and (ii) insofar as the Authority and its affairs, including its financial affairs, are concerned, this Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, taking into account the purposes for which the Official Statement is used. The Authority, by such certificate, will further confirm to the effect that insofar as the descriptions and statements, including financial data, of or pertaining to other governmental bodies, nongovernmental bodies, and their respective activities contained in this Official Statement are concerned, such descriptions, statements, and data have been obtained from sources believed by the Authority to be reliable, and that the Authority has no reason to believe that they are untrue or incomplete in any material respect.

## APPROVING LEGAL OPINIONS

The validity of the Offered Bonds will be approved by the legal opinion of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Authority. For the form of proposed Bond Counsel opinion relating to the Offered Bonds, see Appendix H. Certain legal matters will be passed upon by the Attorney General and Reporter of the State of Tennessee, as counsel to the Authority. Certain legal matters will be passed upon for the Underwriters by their counsel, Bass, Berry & Sims PLC, Nashville, Tennessee. No representation is made to the holders of the Offered Bonds that such counsel have verified the accuracy, completeness or fairness of the statements in this Official Statement, and such counsel assume no responsibility to the holders of the Offered Bonds except for the matters that will be set forth in their respective opinions.

## CONTINUING DISCLOSURE

The Authority has authorized a Continuing Disclosure Undertaking (the “Undertaking”) with respect to the Offered Bonds to assist the Underwriters in complying with U.S. Securities and Exchange Commission Rule 15c2-12(b)(5). The Undertaking is for the benefit of the holders of the Offered Bonds; beneficial owners of the Offered Bonds will be third-party beneficiaries of the Undertaking. In the Undertaking, the Authority will agree to provide certain financial information and operating data by specified dates, and to provide notice of certain enumerated events with respect to the Offered Bonds, if material. The specific nature of the information to be provided and the notices of material events, and the places where they will be filed, is described in the summary of certain provisions of the Undertaking, attached hereto as Appendix G. The Authority has not failed to comply in any material respect with any previous continuing disclosure undertaking in a written contract or agreement specified in Rule 15c2-12.

## UNDERWRITING

UBS Securities LLC as representative and on behalf of the Underwriters, has agreed to purchase and to pay a net purchase price for the 2007A Bonds of \$34,413,216.50 (representing an aggregate principal amount of \$33,730,000.00 plus a net original issue premium of \$721,699.55 less Underwriters’ discount of \$127,427.98 plus accrued interest of \$88,944.93), to pay a net purchase price for the 2007B Bonds of \$14,029,235.47 (representing an aggregate principal amount of \$14,040,000.00 less Underwriters’ discount of \$57,534.27 plus accrued interest of \$46,769.74), and to pay a net purchase price for the 2007C Bonds of \$96,356,519.82 (representing an aggregate principal amount of \$89,940,000 plus a original issue premium of \$6,505,905.85 less Underwriters’ discount of \$359,463.53 plus accrued interest of \$270,077.50).

The prices and other terms respecting the offering and sale of the Offered Bonds may be changed from time to time by the Underwriters after such Offered Bonds are released for sale, and the Offered Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts.

## MISCELLANEOUS

All quotations from, and summaries and explanations of, the Act, the Financing Agreements, the Resolution, and the Undertaking contained herein do not purport to be complete and reference is made to each for full and complete statements of their provisions. The Appendices attached hereto are a part of this Official Statement. Any statements in this Official Statement involving matters of estimate or opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or holders of any of the Offered Bonds.

## TENNESSEE STATE SCHOOL BOND AUTHORITY

/s/ John G. Morgan  
By: John G. Morgan, Comptroller of the Treasury  
Secretary to the Authority

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**Financial Statements of the Authority**

The Tennessee State School Bond Authority Comprehensive Annual Financial Report (“CAFR”), including the audited Basic Financial Statements, for the fiscal year ended June 30, 2006 has been filed with each nationally recognized municipal securities information repository (“NRMSIR”)(see “Continuing Disclosure” in the Official Statement) and is obtainable from them in accordance with their respective procedures. A printed version is also available upon request to the Tennessee State School Bond Authority, James K. Polk State Office Building, Suite 1600, 505 Deaderick Street, Nashville, Tennessee 37243-0273, telephone (615) 401-7872, fax (615) 741-5986. The 2006 CAFR and certain prior year CAFRs are posted on the Authority’s website at **<http://www.comptroller.state.tn.us/bf/bftssba.htm>**.

The following reports, each of which are included in the CAFR and have been posted on the Authority’s website, are incorporated herein by reference:

Independent Auditor’s Report

Management’s Discussion and Analysis

Basic Financial Statements:

Statements of Net Assets

Statements of Revenues, Expenses and Changes in Net Assets

Statements of Cash Flows

Notes to the Financial Statements

Supplementary Schedules:

Supplementary Schedules of Net Assets – Program Level

Supplementary Schedules of Revenues, Expenses, and Changes in Net Assets – Program Level

Supplementary Schedules of Cash Flows – Program Level

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**TENNESSEE STATE SCHOOL BOND AUTHORITY  
SELECTED STATISTICAL INFORMATION**

**Authority Bond Debt Service and Other Requirements  
Secured by Financing Agreements  
(Excluding Commercial Paper)  
(000's Omitted)**

12 Months Ending June 30	<b>First Program<sup>1</sup></b>			<b>Second Program<sup>2</sup></b>			<b>Total<sup>1,2</sup></b>
	Bond Debt Service	Admin. Expense	Annual Financing Charges	Bond Debt Service	Admin. Expense	Annual Financing Charges	Annual Financing Charges
2007	\$ 4,692	\$ 41	\$ 4,733	\$ 46,651	\$ 1,004	\$ 47,655	\$ 52,388
2008	4,687	33	4,720	46,465	978	47,443	52,163
2009	4,689	25	4,714	46,636	931	47,567	52,281
2010	4,688	18	4,706	46,708	881	47,589	52,295
2011	1,761	11	1,772	41,581	828	42,409	44,181
2012	547	7	554	41,105	784	41,889	42,443
2013	542	6	548	39,186	738	39,924	40,472
2014	541	6	547	38,751	893	39,644	40,191
2015	542	5	547	37,392	650	38,042	38,589
2016	541	4	545	36,207	606	36,813	37,358
2017	537	3	540	35,047	563	35,610	36,150
2018	543	2	545	34,251	519	34,770	35,315
2019	536	2	538	33,344	476	33,820	34,358
2020	539	1	540	33,026	432	33,458	33,998
2021	0	0	0	30,973	387	31,360	31,360
2022	0	0	0	28,194	344	28,538	28,538
2023	0	0	0	27,030	303	27,333	27,333
2024	0	0	0	26,475	264	26,739	26,739
2025	0	0	0	22,972	224	23,196	23,196
2026	0	0	0	22,987	189	23,176	23,176
2027	0	0	0	16,940	152	17,092	17,092
2028	0	0	0	16,959	126	17,085	17,085
2029	0	0	0	13,550	98	13,648	13,648
2030	0	0	0	13,573	76	13,649	13,649
2031	0	0	0	9,628	52	9,680	9,680
2032	0	0	0	9,640	36	9,676	9,676
2033	0	0	0	4,035	19	4,054	4,054
2034	0	0	0	4,041	11	4,052	4,052
2035	0	0	0	1,048	4	1,052	1,052
2036	0	0	0	1,050	2	1,052	1,052
	<u>\$ 25,385</u>	<u>\$ 164</u>	<u>\$ 25,549</u>	<u>\$ 805,445</u>	<u>\$ 12,570</u>	<u>\$ 818,015</u>	<u>\$ 843,564</u>

<sup>1</sup>Includes full accretion of the College Savings Bonds.

<sup>2</sup>Excludes the Offered Bonds. See "THE AUTHORITY - Outstanding Indebtedness of the Authority" for total outstanding Second Program Bonds as of January 1, 2007.

**Principal Amount of Debt Outstanding, by Institution**  
**As of January 1, 2007 (Unaudited)**  
(000's omitted)

<b>Institutions<sup>4</sup></b>	<b>First Program Bonds<sup>2</sup></b>	<b>Second Program Bonds<sup>3</sup></b>	<b>Commercial Paper<sup>1</sup></b>	<b>Non- Authority Debt</b>	<b>Total Debt<sup>1,2,3</sup></b>
University of Tennessee	\$ 13,544	\$ 258,106	\$ 56,343	\$ 56	\$ 328,049
Austin Peay State University	754	27,730	8,518	0	37,002
East Tennessee State University	100	32,867	17,390	2,242	52,599
Middle Tennessee State University	229	93,355	24,874	0	118,458
Tennessee State University	4,955	25,198	8,535	0	38,688
Tennessee Technological University	60	12,020	4,538	0	16,618
University of Memphis	542	49,454	8,132	0	58,128
Cleveland State Community College	0	613	0	0	613
Chattanooga State Technical Community College	0	1,278	2,287	0	3,565
Columbia State Community College	0	119	0	0	119
Dyersburg State Community College	0	422	0	0	422
Jackson State Community College	0	606	0	0	606
Motlow State Community College	0	620	0	0	620
Nashville State Community College	0	64	703	0	767
Northeast State Technical Community College	0	1,085	0	0	1,085
Pellissippi State Technical Community College	0	1,718	0	0	1,718
Roane State Community College	0	2,314	0	0	2,314
Southwest Tennessee Community College	0	1,456	0	0	1,456
Volunteer State Community College	0	559	0	0	559
Walters State Community College	0	1,811	0	0	1,811
<b>TOTAL</b>	<b>\$ 20,184</b>	<b>\$ 511,395</b>	<b>\$ 131,320</b>	<b>\$ 2,298</b>	<b>\$ 665,197</b>

<sup>1</sup> Excludes Commercial Paper not allocated to Institutions as of January 1, 2007 (see page B-13).

<sup>2</sup> Includes accretion of College Savings Bonds as of January 1, 2007.

<sup>3</sup> Excludes the Offered Bonds. See "THE AUTHORITY - Outstanding Indebtedness of the Authority" for total outstanding Second Program Bonds as of January 1, 2007.

<sup>4</sup> Includes only those Institutions that have projects which have been financed with Commercial Paper and/or Bonds.

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**University and College Funds<sup>1</sup>**  
**Statement of Fees/Charges, Legislative Appropriations**  
**And Debt Service for the Last Ten Years**

The Total Fees and Charges and Legislative Appropriations (in some cases, as amended by the General Assembly) set forth in the following tables are applied to pay the cost of operations and maintenance of the following Institutions as well as the Debt Service Requirements (excluding Commercial Paper and the Offered Bonds) listed below. (Dollar amounts are rounded to thousands).

**UNIVERSITY OF TENNESSEE**

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006	\$ 484,786	\$ 440,014	\$ 56	\$ 5,911	\$ 17,986
2005	448,955	430,412	66	5,906	19,411
2004	417,191	406,033	75	9,667	14,840
2003	413,632	409,612	0	9,670	15,134
2002	438,956	406,146	21	10,043	8,585
2001	401,918	408,671	21	10,207	6,667
2000	410,086	375,872	21	16,703	7,728
1999	622,109	373,207	21	28,657	0
1998	559,661	367,938	21	26,891	0
1997	587,138	374,249	21	21,749	0

**AUSTIN PEAY STATE UNIVERSITY**

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006	\$ 39,907	\$ 32,684	\$ 0	\$ 272	\$ 1,832
2005	34,012	32,216	0	272	1,970
2004	33,058	30,712	48	339	1,176
2003	36,201	31,100	48	341	1,175
2002	33,157	30,484	48	457	192
2001	26,555	28,051	48	457	192
2000	24,288	28,001	48	459	192
1999	23,188	27,444	48	672	0
1998	20,420	25,559	48	641	0
1997	19,178	25,733	48	535	0

**EAST TENNESSEE STATE UNIVERSITY**

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006	\$ 79,200	\$ 86,173	\$ 2,242	\$ 77	\$ 2,144
2005	77,284	83,221	312	77	2,747
2004	77,570	79,247	315	77	2,532
2003	68,805	79,735	319	77	2,531
2002	65,342	77,965	261	454	1,462
2001	59,516	75,937	261	644	1,310
2000	64,386	72,837	258	729	1,014
1999	64,652	70,814	0	1,588	0
1998	57,826	67,202	0	1,597	0
1997	53,232	68,469	0	1,636	0

**MIDDLE TENNESSEE STATE UNIVERSITY**

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006	\$ 96,307	\$ 86,971	\$ 0	\$ 345	\$ 6,110
2005	86,644	85,305	0	345	6,592
2004	84,404	81,057	0	907	5,632
2003	71,185	82,144	0	907	5,630
2002	62,437	77,990	0	1,235	4,237
2001	86,328	76,159	0	1,235	3,651
2000	78,317	73,273	0	1,223	2,134
1999	70,530	70,576	0	1,872	0
1998	62,814	64,469	0	1,668	0
1997	57,341	63,529	0	1,166	0

**TENNESSEE STATE UNIVERSITY**

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006	\$ 45,616	\$ 44,939	\$ 0	\$ 951	\$ 1,942
2005	44,167	42,305	0	955	2,046
2004	53,840	40,621	0	953	2,057
2003	57,939	39,040	0	954	2,183
2002	45,119	35,067	0	1,124	1,069
2001	54,979	34,843	66	1,124	932
2000	52,156	36,337	66	892	577
1999	46,423	35,597	66	1,257	0
1998	39,141	32,052	135	1,157	0
1997	34,352	32,227	135	1,100	0

**TENNESSEE TECHNOLOGICAL UNIVERISTY**

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006	\$ 48,903	\$ 48,503	\$ 0	\$ 13	\$ 1,029
2005	44,801	47,869	0	13	1,155
2004	47,194	40,165	0	13	884
2003	53,518	45,813	0	13	402
2002	41,311	40,392	0	242	397
2001	37,065	43,568	0	447	397
2000	33,791	38,938	0	447	628
1999	31,616	39,259	0	1,145	0
1998	28,831	37,699	0	1,150	0
1997	27,208	38,164	0	1,173	0

**UNIVERSITY OF MEMPHIS**

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006	\$ 148,290	\$ 108,395	\$ 0	\$ 213	\$ 4,780
2005	134,065	106,393	0	213	5,395
2004	128,880	100,602	0	649	5,642
2003	127,638	102,139	0	650	5,684
2002	120,196	99,786	0	649	3,128
2001	114,031	97,499	0	649	1,707
2000	102,186	94,289	0	648	2,406
1999	93,593	93,576	0	2,991	0
1998	80,625	89,924	0	2,889	0
1997	75,167	91,212	0	2,451	0

**CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE**

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006	\$ 19,084	\$ 22,336	\$ 0	\$ 0	\$ 69
2005	12,306	21,977	0	0	73
2004	11,937	20,979	65	0	73
2003	13,428	21,108	60	0	73
2002	12,380	21,233	70	0	34
2001	11,650	20,684	69	0	0
2000	11,074	20,234	72	0	0
1999	10,453	19,602	69	0	0
1998	9,818	18,589	68	0	0
1997	9,032	18,514	71	0	0

**COLUMBIA STATE COMMUNITY COLLEGE**

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006	\$ 13,027	\$ 12,731	\$ 0	\$ 0	\$ 17
2005	12,133	12,839	0	0	0
2004	10,799	11,344	0	0	0
2003	14,921	11,540	0	0	0
2002	13,136	11,437	0	0	0
2001	7,294	11,016	0	0	0
2000	6,836	10,675	0	0	0
1999	6,615	10,143	0	0	0
1998	5,753	9,069	0	0	0
1997	4,966	8,670	0	0	0

### NASHVILLE STATE COMMUNITY COLLEGE

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006	\$ 15,615	\$ 14,045	\$ 0	\$ 0	\$ 13
2005	13,955	13,449	0	0	13
2004	12,202	12,730	0	0	13
2003	13,519	13,099	0	0	0
2002	8,254	12,525	0	0	0
2001	8,322	12,168	0	0	0
2000	7,474	11,655	0	0	0
1999	6,816	11,092	0	0	0
1998	6,260	9,864	0	0	0
1997	4,777	9,677	0	0	0

### SOUTHWEST TENNESSEE COMMUNITY COLLEGE<sup>5</sup>

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006	\$ 18,166	\$ 36,905	\$ 0	\$ 0	\$ 169
2005	16,749	36,210	0	0	179
2004	16,472	34,191	0	0	179
2003	21,839	34,827	0	0	179
2002	19,022	35,175	0	0	146
2001	18,325	34,451	0	0	146
2000	10,838	18,464	0	0	56
1999	9,991	18,527	0	0	0
1998	9,837	17,898	0	0	0
1997	9,712	18,174	0	0	0

### VOLUNTEER STATE COMMUNITY COLLEGE

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006	\$ 19,245	\$ 17,479	\$ 0	\$ 0	\$ 17
2005	19,115	18,049	0	0	0
2004	9,395	15,417	0	0	0
2003	12,941	15,813	0	0	0
2002	15,060	15,862	0	0	0
2001	15,567	15,394	0	0	0
2000	17,843	14,947	0	0	0
1999	15,088	14,323	0	0	0
1998	13,046	13,232	0	0	0
1997	12,855	12,029	0	0	0

Source-Colleges & Universities

<sup>1</sup> Includes only those Institution that have projects which have been financed with Bonds.

<sup>2</sup> Appropriations for operations and maintenance, including employer social security and retirement contributions; but not including special program funds, such as for Centers of Excellence and institution and research equipment.

<sup>3</sup> Debt service requirements consist of only principal and interest.

<sup>4</sup> Fees and Charges, Appropriations, Subordinate Debt Service Requirements (Non-Authority), and Debt Service Requirements (First and Second Program Bonds) are budgeted amounts.

<sup>5</sup> As of July 1, 2000, State Technical Institute at Memphis and Shelby State Community College merged to form Southwest Tennessee Community College.

**STATE OF TENNESSEE  
COVERAGE OF ANNUAL FINANCING CHARGES  
LONG-TERM DEBT SECURED BY FIANCING AGREEMENTS<sup>1</sup>  
COLLEGE AND UNIVERSITY FUNDS  
FOR THE LAST TEN YEARS**

(Expressed in Thousands)

**UNIVERSITY OF TENNESSEE**

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Annual Financing Charges <sup>2,3,4</sup>	Coverage By:	
				Fees & Charges	Fees, Charges, & Appropriations
2006	\$ 484,786	\$ 440,014	\$ 24,425	19.85 X	37.86 X
2005	448,955	430,412	25,854	17.37 X	34.01 X
2004	417,191	406,033	24,822	16.81 X	33.17 X
2003	413,632	409,612	25,138	16.45 X	32.75 X
2002	438,956	406,146	20,703	21.20 X	40.82 X
2001	401,918	408,671	18,814	21.36 X	43.08 X
2000	410,086	375,872	16,876	24.30 X	46.57 X
1999	622,109	373,207	24,589	25.30 X	40.48 X
1998	559,661	367,938	28,793	19.44 X	32.22 X
1997	587,138	374,249	27,029	21.72 X	35.57 X

**AUSTIN PEAY STATE UNIVERSITY**

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Annual Financing Charges <sup>2,3,4</sup>	Coverage By:	
				Fees & Charges	Fees, Charges, & Appropriations
2006	\$ 39,907	\$ 32,684	\$ 2,162	18.46 X	33.58 X
2005	34,012	32,216	2,304	14.76 X	28.74 X
2004	33,058	30,712	1,546	21.38 X	41.25 X
2003	36,201	31,100	1,548	23.39 X	43.48 X
2002	33,157	30,484	621	53.39 X	102.48 X
2001	26,555	28,051	623	42.62 X	87.65 X
2000	24,288	28,001	623	38.99 X	83.93 X
1999	23,188	27,444	655	35.40 X	77.30 X
1998	20,420	25,559	675	30.25 X	68.12 X
1997	19,178	25,733	645	29.73 X	69.63 X

**EAST TENNESSEE STATE UNIVERSITY**

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Annual Financing Charges <sup>2,3,4</sup>	Coverage By:	
				Fees & Charges	Fees, Charges, & Appropriations
2006	\$ 79,200	\$ 86,173	\$ 2,261	35.03 X	73.14 X
2005	77,284	83,221	2,881	26.83 X	55.71 X
2004	77,570	79,247	2,660	29.16 X	58.95 X
2003	68,805	79,735	2,661	25.86 X	55.82 X
2002	65,342	77,965	2,117	30.87 X	67.69 X
2001	59,516	75,937	1,946	30.58 X	69.61 X
2000	64,386	72,837	1,984	32.45 X	69.16 X
1999	64,652	70,814	1,765	36.63 X	76.75 X
1998	57,826	67,202	1,600	36.14 X	78.14 X
1997	53,232	68,469	1,607	33.13 X	75.73 X

**MIDDLE TENNESSEE STATE UNIVERSITY**

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Annual Financing Charges <sup>2,3,4</sup>	Coverage By:	
				Fees & Charges	Fees, Charges, & Appropriations
2006	\$ 96,307	\$ 86,971	\$ 6,626	14.53 X	27.66 X
2005	86,644	85,305	7,103	12.20 X	24.21 X
2004	84,404	81,057	6,673	12.65 X	24.80 X
2003	71,185	82,144	6,675	10.66 X	22.97 X
2002	62,437	77,990	5,978	10.44 X	23.49 X
2001	86,328	76,159	5,571	15.50 X	29.17 X
2000	78,317	73,273	4,987	15.70 X	30.40 X
1999	70,530	70,576	3,427	20.58 X	41.17 X
1998	62,814	64,469	1,883	33.36 X	67.60 X
1997	57,341	63,529	1,678	34.17 X	72.03 X

**TENNESSEE STATE UNIVERSITY**

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Annual Financing Charges <sup>2,3,4</sup>	Coverage By:	
				Fees & Charges	Fees, Charges, & Appropriations
2006	\$ 45,616	\$ 44,939	\$ 2,958	15.42 X	30.61 X
2005	44,167	42,305	3,054	14.46 X	28.31 X
2004	53,840	40,621	3,070	17.54 X	30.77 X
2003	57,939	39,040	3,198	18.12 X	30.32 X
2002	45,119	35,067	2,272	19.86 X	35.29 X
2001	54,979	34,843	2,224	24.72 X	40.39 X
2000	52,156	36,337	2,087	24.99 X	42.40 X
1999	46,423	35,597	1,493	31.09 X	54.94 X
1998	39,141	32,052	1,268	30.87 X	56.15 X
1997	34,352	32,227	1,168	29.41 X	57.00 X

**TENNESSEE TECHNOLOGICAL UNIVERSITY**

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Annual Financing Charges <sup>2,3,4</sup>	Coverage By:	
				Fees & Charges	Fees, Charges, & Appropriations
2006	\$ 48,903	\$ 48,503	\$ 1,066	45.88 X	91.38 X
2005	44,801	47,869	1,190	37.65 X	77.87 X
2004	47,194	40,165	912	51.75 X	95.79 X
2003	53,518	45,813	420	127.42 X	236.50 X
2002	41,311	40,392	756	54.64 X	108.07 X
2001	37,065	43,568	748	49.55 X	107.80 X
2000	33,791	38,938	950	35.57 X	76.56 X
1999	31,616	39,259	1,082	29.22 X	65.50 X
1998	28,831	37,699	1,151	25.05 X	57.80 X
1997	27,208	38,164	1,156	23.54 X	56.55 X



**UNIVERSITY OF MEMPHIS**

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Annual Financing Charges <sup>2,3,4</sup>	Coverage By:	
				Fees & Charges	Fees, Charges, & Appropriations
2006	\$ 148,290	\$ 108,395	\$ 5,197	28.53 X	49.39 X
2005	134,065	106,393	5,792	23.15 X	41.52 X
2004	128,880	100,602	6,378	20.21 X	35.98 X
2003	127,638	102,139	6,432	19.84 X	35.72 X
2002	120,196	99,786	5,884	20.43 X	37.39 X
2001	114,031	97,499	3,846	29.65 X	55.00 X
2000	102,186	94,289	2,387	42.81 X	82.31 X
1999	93,593	93,576	3,078	30.41 X	60.81 X
1998	80,625	89,924	3,004	26.84 X	56.77 X
1997	75,167	91,212	2,902	25.90 X	57.33 X

**CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE**

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Annual Financing Charges <sup>2,3,4</sup>	Coverage By:	
				Fees & Charges	Fees, Charges, & Appropriations
2006	\$ 19,084	\$ 22,336	\$ 71	268.79 X	583.38 X
2005	12,306	21,977	74	166.30 X	463.28 X
2004	11,937	20,979	74	161.31 X	444.81 X
2003	13,428	21,108	74	181.46 X	466.70 X
2002	12,380	21,233	34	364.12 X	988.62 X
2001	11,650	20,684	-	0.00 X	0.00 X
2000	11,074	20,234	-	0.00 X	0.00 X
1999	10,453	19,602	-	0.00 X	0.00 X
1998	9,818	18,589	-	0.00 X	0.00 X
1997	9,032	18,514	-	0.00 X	0.00 X

**COLUMBIA STATE COMMUNITY COLLEGE**

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Annual Financing Charges <sup>2,3,4</sup>	Coverage By:	
				Fees & Charges	Fees, Charges, & Appropriations
2006	\$ 13,027	\$ 12,731	\$ 18	723.72 X	1431.00 X
2005	12,133	12,839	18	674.06 X	1387.33 X
2004	10,799	11,344	-	0.00 X	0.00 X
2003	14,921	11,540	-	0.00 X	0.00 X
2002	13,136	11,437	-	0.00 X	0.00 X
2001	7,294	11,016	-	0.00 X	0.00 X
2000	6,836	10,675	-	0.00 X	0.00 X
1999	6,615	10,143	-	0.00 X	0.00 X
1998	5,753	9,069	-	0.00 X	0.00 X
1997	4,966	8,670	-	0.00 X	0.00 X

# **NASHVILLE STATE COMMUNITY COLLEGE**

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Annual Financing Charges <sup>2,3,4</sup>	Coverage By:	
				Fees & Charges	Fees, Charges, & Appropriations
2006	\$ 15,615	\$ 14,045	\$ 13	1201.15 X	2281.54 X
2005	13,955	13,449	13	1073.46 X	2108.00 X
2004	12,202	12,730	13	938.62 X	1917.85 X
2003	13,519	13,099	13	1039.92 X	2047.54 X
2002	8,254	12,525	-	0.00 X	0.00 X
2001	8,322	12,168	-	0.00 X	0.00 X
2000	7,474	11,655	-	0.00 X	0.00 X
1999	6,816	11,092	-	0.00 X	0.00 X
1998	6,260	9,864	-	0.00 X	0.00 X
1997	4,777	9,677	-	0.00 X	0.00 X

# **SOUTHWEST TENNESSEE COMMUNITY COLLEGE\***

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Annual Financing Charges <sup>2,3,4</sup>	Coverage By:	
				Fees & Charges	Fees, Charges, & Appropriations
2006	\$ 18,166	\$ 36,905	\$ 175	103.81 X	314.69 X
2005	16,749	36,210	183	91.52 X	289.39 X
2004	16,472	34,191	183	90.01 X	276.85 X
2003	21,839	34,827	149	146.57 X	380.31 X
2002	19,022	35,175	149	127.66 X	363.74 X
2001	18,325	34,451	150	122.17 X	351.84 X
2000	10,838	18,464	58	186.86 X	505.21 X
1999	9,991	18,527	-	0.00 X	0.00 X
1998	9,837	17,898	-	0.00 X	0.00 X
1997	9,712	18,174	-	0.00 X	0.00 X

# **VOLUNTEER STATE COMMUNITY COLLEGE**

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Annual Financing Charges <sup>2,3,4</sup>	Coverage By:	
				Fees & Charges	Fees, Charges, & Appropriations
2006	\$ 19,245	\$ 17,479	\$ 17	1132.06 X	2160.24 X
2005	19,115	18,049	17	1124.41 X	2186.12 X
2004	9,395	15,417	-	0.00 X	0.00 X
2003	12,941	15,813	-	0.00 X	0.00 X
2002	15,060	15,862	-	0.00 X	0.00 X
2001	15,567	15,394	-	0.00 X	0.00 X
2000	17,843	14,947	-	0.00 X	0.00 X
1999	15,088	14,323	-	0.00 X	0.00 X
1998	13,046	13,232	-	0.00 X	0.00 X
1997	12,855	12,029	-	0.00 X	0.00 X

\* As of July 1, 2000, State Technical Institute at Memphis and Shelby State Community College merged to form Southwest Tennessee Community College.

<sup>1</sup> Includes both the First Program and Second Program Bonds. Excludes Commercial Paper.

<sup>2</sup> Does not include coverage for debt outstanding as Commercial Paper.

<sup>3</sup> Includes the maturity value only, and includes full accretion of College Savings Bonds and certain bonds secured by refunding trusts.

<sup>4</sup> Annual Financing Charges consist of principal, interest and administrative fee.

**Student Fees and Charges <sup>1</sup>**  
**(2005-2006 Academic Year)**

<b><u>Institutions<sup>2</sup></u></b>	<b><u>Debt Service Fees</u></b>	<b><u>In-State Student Tuition</u></b>	<b><u>Non-Resident Student Tuition</u></b>	<b><u>Average Board Charge</u></b>	<b><u>Average Room Charge</u></b>
University of Tennessee-Knoxville	\$ 74	\$ 5,290	\$ 16,360	\$ 2,466	\$ 2,850
University of Tennessee-Chattanooga	220	4,500	13,526	2,710	3,800
University of Tennessee-Martin	174	4,493	13,547	2,200	2,044
University of Tennessee-Memphis	54	6,522*	18,998*	N/A	3,240**
Austin Peay State University	274	4,635	13,947	1,900	2,900
East Tennessee State University	180	4,487	13,799	1,998	1,864
Middle Tennessee State University	166	4,576	13,888	2,070	2,680
Tennessee State University	130	4,384	13,696	1,710	3,880
Tennessee Technological University	58	4,396	13,708	2,720	3,112
University of Memphis	192	5,084	14,898	1,590	2,658
Chattanooga State Technical Community College	0	2,413	8,827	N/A	N/A
Cleveland State Community College	0	2,395	8,809	N/A	N/A
Columbia State Community College	0	2,383	8,797	N/A	N/A
Dyersburg State Community College	0	2,393	8,807	N/A	N/A
Jackson State Community College	0	2,395	8,809	N/A	N/A
Motlow State Community College	0	2,389	8,803	N/A	N/A
Nashville State Community College	0	2,367	8,781	N/A	N/A
Northeast State Technical Community College	0	2,403	8,817	N/A	N/A
Pellissippi State Technical Community College	30	2,413	8,827	N/A	N/A
Roane State Community College	0	2,397	8,811	N/A	N/A
Southwest Tennessee Community College	0	2,397	8,811	N/A	N/A
Volunteer State Community College	0	2,383	8,797	N/A	N/A
Walters State Community College	0	2,381	8,795	N/A	N/A

<sup>1</sup> Source –The Tennessee Higher Education Commission and the Colleges and Universities

<sup>2</sup> Includes only those Institutions that have projects which have been financed with Commercial Paper and/or Bonds.

\* The tuition figures given for University of Tennessee - Memphis are based on the College of Graduate Health Sciences.

All professional programs are priced individually and an average would not be meaningful.

\*\*The room charge shown for University of Tennessee - Memphis is an average of nine months of the Goodman House apartment rate which is the only housing offered by the university.

*[Balance of this page intentionally left blank. Appendix continues on following page.]*

**TENNESSEE STATE SCHOOL BOND AUTHORITY  
FALL TERM FULL-TIME EQUIVALENT ENROLLMENT  
HIGHER EDUCATION FACILITIES INSTITUTIONS  
FOR THE LAST TEN YEARS**

Institution <sup>1</sup>	% Change									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
	<b>Four Year Institutions</b>									
APSU	7,443	7,336	6,939	6,278	6,079	5,769	5,671	5,721	5,816	5,968
ETSU**	10,594	10,185	10,070	9,936	9,664	9,507	9,364	9,638	9,792	9,549
MTSU	19,355	19,139	19,037	18,735	18,151	17,125	16,339	16,173	15,655	15,455
TSU	7,464	7,462	7,662	7,716	7,703	7,425	7,431	7,629	7,383	7,168
TTU	7,900	7,562	7,559	7,509	7,554	7,327	7,212	7,227	7,112	7,287
UOM	15,946	15,910	16,128	15,720	15,696	15,890	15,613	15,909	15,771	15,452
TBR Total	68,702	67,593	67,394	65,894	64,846	63,043	61,629	62,298	61,529	60,879
UTC	7,564	7,317	7,326	7,138	7,050	6,955	6,832	7,019	7,040	6,816
UTK *	24,016	23,642	23,141	22,730	23,221	23,183	22,960	23,277	22,476	21,819
UTM	5,968	5,833	5,570	5,265	5,311	5,379	5,324	5,278	5,480	5,607
UTMem	3,583	3,412	2,062	2,008	1,977	1,949	1,999	2,023	2,024	1,949
UT Total	41,131	40,205	38,099	37,141	37,559	37,466	37,115	37,597	37,020	36,191
Total 4 Yr	109,833	107,797	105,494	103,035	102,404	100,509	98,744	99,895	98,549	97,070
	<b>Two-Year Institutions</b>									
CSTCC	5,054	4,890	5,124	5,186	5,264	5,269	4,832	5,038	5,140	5,227
CLSCC	2,034	2,103	2,088	2,224	2,200	2,318	2,083	2,158	2,176	2,376
COSCC	2,963	3,120	3,145	3,082	3,108	2,984	2,788	2,906	2,947	2,820
DSCC	1,693	1,744	1,770	1,819	1,657	1,577	1,563	1,435	1,522	1,533
JSCC	2,791	2,573	2,702	2,743	2,713	2,658	2,514	2,548	2,416	2,328
MSCC	2,566	2,392	2,465	2,436	2,556	2,441	2,199	2,221	2,273	2,287
NSTCC	3,374	3,142	3,334	3,112	2,968	2,879	2,607	2,601	2,513	2,422
NSCC	4,083	4,074	3,889	3,769	3,757	3,631	3,548	3,527	3,492	3,357
PSTCC	5,149	4,963	4,963	5,013	5,208	5,151	5,079	5,080	5,258	5,217
RSCC	3,738	3,603	3,850	3,775	3,767	3,647	3,474	3,797	3,675	3,720
SSCC	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,805	2,887	3,193
STIM	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4,532	4,472	4,660
STCC***	7,306	7,332	7,561	7,361	7,141	7,743	7,059	7,338	7,359	7,852
VSCC	4,677	4,553	4,483	4,426	4,525	4,295	4,138	4,107	4,198	4,236
WSCC	3,872	3,826	3,864	4,067	3,867	3,909	3,665	3,594	3,666	3,807
Total 2 Yr	49,300	48,315	49,238	49,013	48,729	48,502	45,550	46,349	46,635	47,181
<b>Grand Total</b>	<b>159,133</b>	<b>156,112</b>	<b>154,732</b>	<b>152,048</b>	<b>151,133</b>	<b>149,011</b>	<b>144,294</b>	<b>146,244</b>	<b>145,184</b>	<b>144,251</b>
								<b>1.9%</b>	<b>6.8%</b>	<b>10.3%</b>

Source –The Tennessee Higher Education Commission  
\*\*Includes UT Space Institute and UT Veterinary College  
\*\*\*Includes ETSU Medical School

\*\*\*Contains combined totals for STIM and SSCC from 1996-99

<sup>1</sup> APSU = Austin Peay State University, ETSU = East Tennessee State University, MTSU = Middle Tennessee State University, TSU = Tennessee State University, TTU = Tennessee Technological University, UOM = University of Memphis, UTC = University of Tennessee at Chattanooga, UTK = University of Tennessee at Knoxville, UTM = University of Tennessee at Martin, UTMem = University of Tennessee at Memphis, CSTCC = Chattanooga State Technical Community College, CLSCC = Cleveland State Community College, COSCC = Columbia State Community College, DSICC = Dyersburg State Community College, JSCC = Jackson State Community College, MSCC = Motlow State Community College, NSTCC = Northeast State Technical Community College, NSCC = Nashville State Community College, PSTCC = Pellissippi State Technical Community College, RSCC = Roane State Community College, SSICC = Shelby State Community College, STIM = State Tennessee Institute in Memphis, STCC = Southwest Tennessee Community College, VSCC = Volunteer State Community College, WSCC = Walters State Community College

## TENNESSEE STATE SCHOOL BOND AUTHORITY PROJECTS

The Projects that have been financed through the sale of bonds primarily consist of student residence facilities, student activities centers, garage or parking adjuncts, stadiums, equipment and land. Such Projects are income-generating enterprises for which there is imposed an appropriate fee or charge to be paid by the student, faculty, staff or other users of the respective Projects.

The Authority has financed with bonds 160 Projects (excludes the projects to be financed with the Offered Bonds), 73 of which are located on the four campuses of the University of Tennessee, 7 at Austin Peay State University, 11 at East Tennessee State University, 23 at Middle Tennessee State University, 7 at Tennessee State University, 4 at Tennessee Technological University, 14 at the University of Memphis, 1 at Cleveland State Community College, 2 at Chattanooga State Technical Community College, 1 at Columbia State Community College, 1 at Dyersburg State Community College, 1 at Jackson State Community College, 1 at Motlow State Community College, 1 at Nashville State Community College, 2 at Northeast State Technical Community College, 2 at Pellissippi State Technical Community College, 2 at Roane State Community College, 3 at Southwest Tennessee Community College (formerly State Technical Institute in Memphis and Shelby State Community College), 2 at Volunteer State Community College, and 2 at Walters State Community .

The Authority has approved for financing through Commercial Paper portions of 41 Projects (includes the projects to be financed with the Offered Bonds), 20 of which are located on four of the campuses of The University of Tennessee, 3 at Austin Peay State University, 6 at East Tennessee State University, 6 at Middle Tennessee State University, 2 at Tennessee State University, 1 at Tennessee Technological University, 1 at the University of Memphis, 1 at Chattanooga State Technical Community College, 1 at Nashville State Community College,. The table below shows the amounts authorized for Projects at each institution for Commercial Paper funding and the Commercial Paper issued against such authorizations.

### Authority-Approved Projects For Commercial Paper Funding<sup>1</sup> As of January 1, 2007 (Unaudited)

<u>Projects at Institutions</u>	<u>Projects Authorized</u>	<u>Commercial Paper Issued</u>
University of Tennessee	\$ 292,997,796	\$ 56,342,882
Austin Peay State University	15,294,182	8,575,696
East Tennessee State University	77,818,965	17,418,102
Middle Tennessee State University	71,171,119	25,081,410
Tennessee State University	14,865,000	8,696,845
Tennessee Technological University	4,750,000	4,538,067
University of Memphis	24,481,000	8,132,238
Chattanooga State Technical Community College	2,316,000	2,287,868
Nashville State Community College	797,000	702,547
Tennessee Board of Regents Totals	<u>\$ 211,493,266</u>	<u>\$ 75,432,774</u>
Institution Totals	<u>\$ 504,491,062</u>	<u>\$ 131,775,656</u>
Commercial Paper not allocated to Institutions as of January 1, 2007		8,776,344
Total Commercial Paper Outstanding		<u>\$ 140,552,000</u>

<sup>1</sup> See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Subordinated Obligations; Commercial Paper" for a description of the Commercial Paper Program.

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## GLOSSARY OF CERTAIN TERMS

The following terms, as used in this Official Statement including the Appendices hereto, have the respective meanings provided below. These summary definitions do not purport to be complete or definitive and are qualified in their entirety by reference to the Resolution and Financing Agreements, copies of which are on file at the offices of the Authority and the Trustee.

**"Account" or "Accounts"** means each account or all of the accounts established pursuant to the Resolution, as the case may be.

**"Accreted Value"** means with respect to any Capital Appreciation Bonds (i) as of any Valuation Date, the amount set forth for such date in the Supplemental Resolution authorizing such Capital Appreciation Bonds and (ii) as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date and (2) the difference between the Accreted Values for such Valuation Dates. For purposes of this definition, the number of days having elapsed from the preceding Valuation Date and the number of days from the preceding Valuation Date to the next succeeding Valuation Date shall be calculated on the basis of a three hundred sixty (360) day year of twelve (12) thirty (30) day months or otherwise with respect to any Series of Bonds as may be provided by the Supplemental Resolution authorizing the issuance thereof.

**"Act"** means the Tennessee State School Bond Authority Act, Sections 49-3-1201 *et seq.*, Tennessee Code Annotated, as amended from time to time.

**"Administrative Expenses"** means the Authority's expenses of carrying out and administering its powers, duties and functions in connection with the Agreements, the Projects and the Resolution, and shall include, without limiting the generality of the foregoing: administrative expenses, legal, accounting and consultant's services and expenses, the fees and expenses of the Trustee, Paying Agents and Registrar, payments to pension, retirement, health and hospitalization funds, and any other expenses required or permitted to be paid by the Authority under the provisions of the Act, the Financing Agreements or the Resolution or otherwise.

**"Annual Financing Charges"** means the amounts payable by the Boards to the Authority under the Financing Agreements for (i) the payment of principal of and premium, if any, and interest on Debt for all Projects and all Institutions, (ii) any payments to fund or replenish reserves therefor as may be required by the Resolution, regardless of Project or Institution, and (iii) any other payments required to be made by or on behalf of the Authority under or pursuant to the Resolution with respect to any Project, any Institution or the Board.

**"Authenticating Agent"** means an authenticating agent appointed pursuant to the Resolution.

**"Authority"** means the Tennessee State School Bond Authority, the corporate governmental agency and instrumentality created by the Act, or any body, agency or instrumentality of the State which shall succeed to the powers, duties and functions of the Authority.

**"Authorized Officer"** means any member of the Authority, and any other officer or employee of the Authority authorized by law, by resolution of the Authority or by a certificate of the Secretary of the Authority to perform the act or sign the document in question.

**"Bank Bonds"** means Reimbursement Obligations under Credit Facilities represented by Bonds; provided, however, that Bank Bonds do not include any Bonds issued to or held by any party providing a Credit Facility or its designee in any other capacity.

**"Board" or "Boards"** means the Board of Regents or the Board of Trustees, or both such Boards, respectively.

**"Board of Regents"** means the Tennessee Board of Regents of the State University and Community College System of the State of Tennessee, and its successors.

**"Board of Trustees"** means the Board of Trustees of The University of Tennessee, and its successors.

**"Bond" or "Bonds"** means any Bond or Bonds issued under the Resolution, including but not limited to Variable Interest Rate Bonds, Capital Appreciation Bonds and Refunding Bonds. Bonds shall not include Subordinated Obligations.

**"Bond Year"** means the twelve month period commencing on May 1 of each calendar year and ending on April 30 of the next succeeding calendar year except that the first Bond Year shall begin on the date specified in the Supplemental Resolution authorizing the first Series of Bonds.

**"Business Day"** means any day other than (i) a Saturday or Sunday, (ii) a day on which banking institutions located in the State or in any of the cities in which the principal office of the Trustee, any Paying Agent, the Registrar or the provider of a Reserve Fund Credit Facility are required or authorized by law or executive order to close or (iii) a day on which the New York Stock Exchange is closed, and (iv) with respect to a particular Series of Bonds, a day on which any provider of a Credit Facility for such Series of Bonds is located is required or authorized by law or executive order to close or as may otherwise be provided by the Supplemental Resolution authorizing such Series of Bonds.

**"Capital Appreciation Bonds"** means any Bonds as to which interest is payable only at the maturity or prior redemption of such Bonds or which bear a stated interest rate of zero. For the purposes of (i) receiving payment of the Redemption Price if a Capital Appreciation Bond is redeemed prior to maturity or upon acceleration as provided in the Resolution, or (ii) computing the principal amount of Bonds held by the Owner of a Capital Appreciation Bond in giving to the Authority or any Fiduciary any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever, the principal amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value.

**"Commercial Paper"** means all Commercial Paper issued under the Commercial Paper Resolution.

**"Commercial Paper Resolution"** means the Commercial Paper Resolution adopted by the Authority on November 18, 1997, as the same may be supplemented or amended.

**"Counsel's Opinion"** means an opinion signed by an attorney or firm of attorneys selected by or satisfactory to the Authority (who may be counsel to the Authority) which attorney or firm of attorneys is of recognized standing in the field of law relating to municipal bonds; provided, however, that such Counsel's Opinion may take customary exception as to the effect of, or for restrictions or limitations imposed by or resulting from, bankruptcy, insolvency, debt adjustment, moratorium, reorganization, laws affecting creditors' rights, the exercise of judicial discretion and other matters, and may state that no opinion is being rendered as to the availability of any particular remedy or as to the limitation of remedies resulting from sovereign immunity or the partial waiver thereof, and may contain such other references and qualifications as are acceptable to the Fiduciary receiving the same.

**"Credit Facility"** means any irrevocable letter of credit, standby bond purchase agreement, line of credit, policy of bond insurance, surety bond or agreement, guarantee or similar instrument which is obtained by the Authority and is issued by a financial, insurance or other institution, the State or any subdivision, department, instrumentality or agency thereof, and the Tennessee Consolidated Retirement System or any successor entity thereto then managing and investing the State retirement funds, and which provides credit enhancement, security or liquidity in respect of the Bonds (and which, with respect to a policy of bond insurance, guarantees the payment of principal of and interest on the Bonds), not including any Reserve Fund Credit Facility.

**"Debt"** means any bonds, notes or other evidences of indebtedness issued by the Authority pursuant to the Act and the Resolution for the purpose of financing or refinancing Project Costs. Without limiting the generality of the foregoing, Debt may include "long-term Debt" (i.e., with a term of more than one year unless issued in anticipation of the issuance of Debt with a longer term) or "short-term Debt" (i.e., with a term of one year or less or issued in anticipation of the issuance of Debt with a term of more than one year), and may take the form of commercial paper.

**"Debt Service Reserve Requirement"** means, with respect to each Series of Bonds, as of any date of calculation, (i) an amount equal to the aggregate of the greatest amount of Debt Service on all Outstanding Bonds of such Series issued for each Project (calculated separately for each Project and then aggregated) payable on any interest or Principal Installment date thereafter (except that for the first such date after the date of issuance of such Bonds, interest to accrue for greater than 6 months but less than 12 months shall not be taken into account), or (ii) such greater amount, which subsequently may be reduced to an amount not less than the amount required by clause (i) above, as may be determined from time to time by the Authority by Supplemental Resolution; provided, however, that as a result of the issuance of any Series of Bonds the interest on which is generally excluded from gross income for Federal income tax purposes, the Debt Service Reserve Requirement with respect to such Series shall at no time exceed the lesser of (i) the amount that may be funded from the proceeds of such Bonds or (ii) the amount that constitutes a reasonably required reserve



with respect to such Bonds. Each determination by the Authority of the Debt Service Reserve Requirement shall be conclusive. For purposes of this definition:

- (A) **"Debt Service"** for any date or period means, as of any date of calculation and with respect to any Series, an amount equal to the sum of (i) the interest payable on such date or accruing during such period on the Outstanding Bonds of such Series, and (ii) the Principal Installment for such Series payable on such date or accruing during such period on the Outstanding Bonds of such Series; provided, however, that in calculating Debt Service on any future date or for any future period: (x) any Variable Interest Rate Bonds shall be deemed to bear interest at all times prior to the maturity date thereof for which the interest rate payable thereon has not yet been determined at the Debt Service Determination Interest Rate applicable thereto and (y) any interest on any Bonds secured by a Credit Facility the related Reimbursement Obligation on which is evidenced by a Bank Bond shall be calculated at the higher of the actual interest rate or, if applicable, the Debt Service Determination Interest Rate applicable to such Bonds or the maximum rate of interest permitted for any such Reimbursement Obligation (whether or not any Reimbursement Obligation has yet accrued).
- (B) **"Debt Service Determination Interest Rate"** means, with respect to any particular Variable Interest Rate Bonds, any numerical rate or rates of interest set forth, or determined as set forth, in the Supplemental Resolution authorizing such Bonds; provided, however, that such rate shall not be less than the interest rate initially borne by such Bonds.
- (C) **"Proceeds"** and **"reasonably required reserve"** shall have the respective meanings given such terms, or any comparable terms, for purposes of Section 148(d) of the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

**"Defeasance Obligations"** means Investment Obligations which are rated at the time of investment in any of the two highest Rating Categories by any Rating Agency, and which (i) shall not be subject to redemption prior to their maturity other than at the option of the holder thereof and (ii) shall not be subject to redemption prior to their maturity other than at the option of the holder thereof or as to which an irrevocable notice of redemption of such securities on a specified redemption date has been given and such securities are not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof.

**"Direct DTC Participant"** shall have the meaning given to such term in Appendix F - "BOOK-ENTRY ONLY SYSTEM".

**"Fees and Charges"** means, with respect to each Board, all revenues, fees, rentals and other charges and moneys received by or on behalf of the Board for the Institution, or received by or on behalf of the Institution, for which any Project is undertaken which may be available for the purpose of paying Annual Financing Charges.

**"Fiduciary"** or **"Fiduciaries"** means the Trustee (including, where appropriate, any co-Trustee or Authenticating Agent), any Paying Agent, the Registrar, or any or all of them, as may be appropriate, or any other Person appointed to act as a Fiduciary as provided in the Resolution.

**"Financing Agreement"** or **"Financing Agreements"** means the Second Program Financing Agreement dated as of November 1, 1997, by and between the Authority and the Board of Trustees, and the Second Program Financing Agreement dated as of November 1, 1997, by and between the Authority and the Board of Regents, as appropriate, in each case as supplemented and amended from time to time.

**"First Program Financing Agreements"** means the Amended and Restated Financing Agreement dated as of September 17, 1996, between the Authority and the Board of Trustees, and between the Authority and the Board of Regents. The following terms, when identified as related to the **First Program**, shall have the respective meanings given to them in the First Program Financing Agreements: **administrative fees, Annual Financing Charges, Bonds, Fees and Charges, General Bond Resolution, Legislative Appropriations and Projects**.

**"Fiscal Year"** means, with respect to the Authority, currently the twelve month period commencing on July 1 and ending on June 30 of the following year. In the event of any change in Fiscal Year resulting in an initial Fiscal Year or interim period of more or less than twelve months, Fiscal Year for purposes of the Financing Agreements shall mean the last twelve month Fiscal Year.

**"Fitch"** means Fitch IBCA, Inc., or any successor then maintaining a rating on any Bonds at the request of the Authority.

**"Fund"** or **"Funds"** means each fund or all of the funds established in the Resolution, as the case may be.

**"Indirect DTC Participant"** shall have the meaning given to such term in Appendix F - "BOOK-ENTRY ONLY SYSTEM".

**"Institution"** means The University of Tennessee, including all of its branches and divisions wherever located, and any institution of higher education under the supervision of the Board of Regents, as appropriate.

**"Investment Obligations"** means and include any instruments, securities, certificates, obligations or the like if and to the extent the same are at the time permitted and legal for investment of the Authority's funds pursuant to the Act or in accordance with any other law, regulation, guideline or policy, as in effect from time to time, of or applicable to the Authority with respect to investments.

**"Legislative Appropriations"** means the amounts payable to the Authority from appropriations by the General Assembly of the State to an Institution for its operation and maintenance, under and pursuant to the Act and the Financing Agreements, including but not limited to amounts deductible, by Persons other than the Boards, from such appropriations for payment directly to the Authority.

**"Moody's"** means Moody's Investors Service, Inc., or any successor then maintaining a rating on any Bonds at the request of the Authority.

**"Outstanding"** when used with reference to Bonds, other than Bonds held by or for the account of the Authority or either of the Boards, means, as of any date, Bonds theretofore or then being delivered under the provisions of the Resolution, except:

- (A) any Bonds cancelled at or prior to such date;
- (B) any Bonds (or portions of Bonds) the principal or Redemption Price, if any, of, and interest on which shall have been paid in accordance with the terms thereof;
- (C) any Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered upon exchange or transfer pursuant to the Resolution;
- (D) Bonds deemed to have been paid as provided in the Resolution; and
- (E) Put Bonds deemed tendered in accordance with the provisions of the Supplemental Resolution authorizing such Bonds on the applicable tender date, if the purchase price thereof and interest thereon shall have been paid or amounts are available for such payment as provided in the Resolution, except to the extent such tendered Put Bonds thereafter may be resold pursuant to the terms thereof and of the Resolution;

unless a Supplemental Resolution provides that Bonds of a Series having the benefit of a Credit Facility shall not thereby be deemed paid if payment is provided by the Credit Facility. If principal of a Bond is paid or redeemed by the provider of a Credit Facility, the related Reimbursement Obligation shall be treated as an Outstanding Bond (when such related Reimbursement Obligation is not evidenced by Bonds designated as Bank Bonds) in lieu of the Bond so paid or redeemed, but only to the extent that principal of the Bond was so paid or redeemed, bearing interest at the interest rate provided in the Credit Facility.

**"Owner"** or **"Bondowner"** (when used with reference to Bonds) or any similar term, means any Person who shall be the registered owner of any Outstanding Bond.

**"Paying Agent"** means any paying agent for the Bonds of any Series and its successor or successors and any other Person which may at any time be substituted in its place, pursuant to the Resolution.

**"Person"** means any individual, corporation, partnership, limited partnership, joint venture, association, joint-stock company, trust, unincorporated association, limited liability corporation or partnership, or government or any agency or subdivision thereof, or other legal entity or group of entities.

**"Principal Installment"** means, as of any date of calculation with respect to any Series, so long as any Bonds thereof are Outstanding, (i) the principal amount of Bonds on a certain future date for which no Sinking Fund Installments have been established,

or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for Bonds of such Series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bonds on such future date in a principal amount equal to said unsatisfied balance of such Sinking Fund Installments, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

**"Project"** means a Project as such term is defined in the Financing Agreements. In the Financing Agreement with each Board, "Project" is defined as buildings, structures, improvements and equipment of every kind, nature and description which may be required by or convenient for the purposes of an Institution or other things which the Board is authorized by law (at the relevant time) to undertake or use, in each case if and to the extent (i) capitalizable by the Board, including but not limited to a capital lease, and (ii) approved by the Authority upon application therefor made by the Board in such form, substance and manner as may be prescribed by the Authority, all subject to any permissible amendment of the Financing Agreement. See Appendix D – "Summary of Certain Provisions of the Financing Agreements – Amendment". Pursuant to legislation adopted at the 2005 session of the General Assembly, computer software (whether acquired before, at the same time as, or after the hardware needed for utilization of the software) to the extent accounted for as a capital asset shall constitute equipment for financing purposes, and projects may include agricultural land related to educational purposes of an Institution purchased from a governmental entity prior to October 1, 2005.

**"Project Cost"** means all direct capital costs and indirect capital costs of Projects, including but not limited to costs of construction and acquisition, costs of issuance of Debt, funded interest on Debt, and amounts to fund or replenish reserves as may be required by the Resolution, if and to the extent approved by the Authority upon application therefor made by the Board in such form, substance and manner as may be prescribed by the Authority.

**"Put Bonds"** means Bonds which by their terms may be tendered by and at the option of the Owner thereof for payment prior to the stated maturity or redemption date thereof either (i) by the Authority and by the Person and/or from the source specified in a Supplemental Resolution or (ii) without recourse to the Authority by the Person and/or from the source specified in a Supplemental Resolution.

**"Qualified Swap"** means, to the extent from time to time permitted by law, any cap, floor or collar, forward rate, future rate, asset, swap or index, price or market linked transaction or agreement, other exchange or rate protection transaction or agreement, other similar transaction (however designated) or any combination thereof, or any option with respect thereto, executed by the Authority with or guaranteed by a qualified swap counterparty either for asset or liability management purposes or otherwise pursuant to the Act or other applicable law. For purposes of this definition, **"qualified swap counterparty"** means a bank insurance company or financial institution rated, or whose long-term obligations of any nature or claims paying ability are rated, at the time of execution in one of the two highest Rating Categories of any Rating Agency.

**"Rating Agency"** means, at any applicable time, Moody's, S&P, Fitch and any other nationally recognized rating agency, or any of them, as appropriate; provided, however, that the same maintains at such time a rating on the Bonds at the request of the Authority.

**"Rating Category"** means a generic rating category of an applicable Rating Agency without regard to any refinement or gradation of such rating by a numerical modifier or otherwise.

**"Redemption Price"** means, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon maturity or redemption thereof pursuant to the Resolution and the Supplemental Resolution pursuant to which the same was issued.

**"Refunding Bonds"** means all Bonds constituting the whole or a part of a Series of Bonds delivered on original issuance pursuant to the Resolution.

**"Registrar"** means the registrar for the Bonds of any Series, and its successor or successors and any other Person which may at any time be substituted in its place pursuant to the Resolution.

**"Reimbursement Obligation"** means any obligation of the Authority to make payments to a provider of a Credit Facility in reimbursement of or as interest on (which interest may be higher than the interest rate on the related Bond) an advance, loan or other payment made by such provider for the purpose of paying (i) the principal, Sinking Fund Installment, if any, or Redemption Price of, or interest on, any Bonds, or (ii) the purchase price, plus accrued interest, if any, of any Bonds tendered pursuant to the provisions of the applicable Supplemental Resolution, but only to the extent the principal amortization requirements with respect to such

reimbursement are equal to the amortization requirements for such related Bonds, without acceleration. Reimbursement Obligations shall not include (a) any payments of any fees, expenses, or other similar obligations to any such provider, which payments shall be Administrative Expenses or (b) any payments pursuant to term-loan or other principal amortization requirements in reimbursement of any such advance that are more accelerated than the amortization requirements on such related Bonds, which payments shall be Subordinated Obligations. Reimbursement Obligations may be evidenced by Bonds designated as Bank Bonds, which may bear a higher interest rate than the rate borne by the Bonds to which they relate.

**"Reserve Fund Credit Facility"** means (i) any irrevocable, unconditional letter of credit issued by a bank, national banking association or savings and loan association, (ii) any insurance policy providing substantially equivalent liquidity as an irrevocable, unconditional letter of credit, and which is issued by a municipal bond or other insurance company, and (iii) any other similar financial arrangement as determined by Supplemental Resolution, and which is used to fund all or a portion of the Debt Service Reserve Requirement; provided, however, that at the time of acceptance by the Authority, the provider's long term obligations of any nature or claims paying ability are rated, by each Rating Agency then rating any Outstanding Bonds, no lower than the same Rating Category (for this purpose, taking into account refinements and gradations) as the Bonds are then rated by such Rating Agency.

**"Resolution"** means the Second Program General Bond Resolution adopted by the Authority on April 27, 1998, as from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms and provisions thereof.

**"S&P"** means Standard and Poor's Rating Services, a division of the McGraw-Hill Companies, or any successor then maintaining a rating on any Bonds at the request of the Authority.

**"Serial Bonds"** means the Bonds which mature in annual or semi-annual installments of principal, which need not be equal and the first installment of which may be deferred, or Bonds so designated in a Supplemental Resolution.

**"Series"** or **"Series of Bonds"** or **"Bonds of a Series"** or words of similar meaning means the Series of Bonds authorized by a Supplemental Resolution.

**"Series Certificate"** means the certificate of determination of the Authority fixing terms, conditions and other details of a Series of Bonds in accordance with the delegation of power to do so under the General Bond Resolution and under an applicable Supplemental Resolution.

**"Sinking Fund Installment"** means, as of any date of calculation and with respect to any Bonds of a Series, so long as any Bonds thereof are Outstanding, the amount of money required by the Resolution or the applicable Supplemental Resolution or Series Certificate to be paid on a single future date for the retirement of any Outstanding Bonds of said Series that mature after said future date and which is unsatisfied as determined pursuant to the Resolution, but does not include any amount payable by the Authority by reason only of the maturity of a Bond.

**"Sinking Fund Payment Date"** means each date on which a Sinking Fund Installment is payable on the Bonds, provided that such date shall be a date on which a Sinking Fund Installment is payable as provided in or pursuant to each Supplemental Resolution.

**"State"** means the State of Tennessee.

**"Subordinated Obligations"** means any evidence of indebtedness (including but not limited to commercial paper), other than Bonds or related Reimbursement Obligations, issued by the Authority to finance Project Costs of a Project or any other indebtedness issued, or other obligations entered into (including but not limited to Qualified Swaps not entered into on a parity with Bonds), pursuant to or as permitted by, and complying with, the provisions of the Resolution.

**"Supplemental Resolution"** means any resolution adopted by the Authority pursuant to and in compliance with the provisions of the Resolution providing for the issuance of a Series of Bonds, and shall also mean any other resolution adopted pursuant to and in compliance with the provisions of the Resolution amending or supplementing the provisions of the Resolution as originally adopted or as theretofore amended or supplemented.

**"Term Bonds"** means the Bonds so designated in a Supplemental Resolution and payable in part from Sinking Fund Installments.

**"Trustee"** means the bank, trust company or national banking association appointed pursuant to the Resolution to act as trustee under the Resolution, and its successor or successors and any other bank, trust company or national banking association at any time substituted in its place pursuant to the Resolution.

**"Valuation Date"** means with respect to any Capital Appreciation Bonds the date or dates set forth in the Supplemental Resolution authorizing such Bonds on which specific Accreted Values are assigned to the Capital Appreciation Bonds.

**"Variable Interest Rate"** means a variable interest rate or rates (or a multiple of a variable rate or rates of interest) to be borne by any Bond within a Series of Bonds. The method of computing such variable interest rate or rates shall be specified in the Supplemental Resolution authorizing such Series of Bonds. Such Supplemental Resolution shall also specify either (i) the particular period or periods of time for which such variable interest rate or rates (or a multiple of a variable rate or rates of interest) shall remain in effect or (ii) the time or times upon which any change in such variable interest rate or rates (or a multiple of a variable rate or rates of interest) shall become effective.

**"Variable Interest Rate Bonds"** means Bonds which bear a Variable Interest Rate but does not include any Bond which, during the remainder of the term thereof to maturity, bears interest at a fixed rate.

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## **SUMMARY OF CERTAIN PROVISIONS OF THE FINANCING AGREEMENTS**

The following is a brief summary of certain provisions of the Financing Agreements, summaries of certain other provisions of which are contained elsewhere in this Official Statement. This and such other summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the Financing Agreements, copies of which are available at the offices of the Authority and the Trustee. For definitions of certain terms used herein, see Appendix C - "GLOSSARY OF CERTAIN TERMS"; provided, however, that for purposes of this summary, the term "Resolution" means, collectively or individually as the context may require, the resolutions of the Authority authorizing the issuance of Debt including, without limiting the generality of the foregoing, the Higher Educational Facilities Second Program General Bond Resolution and any resolutions authorizing the issuance of notes or other obligations (including but not limited to commercial paper), in each case as amended and supplemented pursuant to the provisions thereof.

### **Approval of Projects and Project Costs**

Each Project and Project Costs shall be subject to approval by the Authority upon application therefor made by the Board in such form, substance and manner as may be prescribed by the Authority.

A Project for an Institution shall be approved by the Authority only if the aggregate of the Fees and Charges collected by the Institution in the preceding Fiscal Year is no less than two times the amount required for the payment of the aggregate (without duplication) of (i) the maximum amount of the Annual Financing Charges payable and projected to be payable with respect to all Projects (including the Project to be approved) for the Institution in any succeeding Fiscal Year, plus (ii) the maximum amount payable by the Board as First Project Annual Financing Charges with respect to all First Program Projects for the Institution in any succeeding Fiscal Year, plus (iii) the aggregate of all prior charges, pledges, liens and claims on or payable from said Fees and Charges with respect to the Institution in any succeeding Fiscal Year, including but not limited to all prior charges, pledges, liens and claims on or payable from the First Program Fees and Charges with respect to the Institution.

### **Project Funding**

The Authority will use its best efforts to finance and refinance Project Costs by the issuance of Debt or from other available funds of the Authority, in a manner and under terms deemed by the Authority in its sole discretion to be in the best interests of the Institution for which the related Project is undertaken or used.

### **Project Construction Accounts; Reallocation of Balances**

The Authority will establish a separate account (a "Project Construction Account") for each Project prior to or simultaneously with the issuance of the first Debt to finance related Project Costs. All Bond proceeds determined by the Authority to be available for the payment of Project Costs, shall be deposited in the respective Project Construction Accounts unless and to the extent otherwise provided by the Resolution.

The Authority may reallocate funds in any Project Construction Account derived from the sale of short-term Debt to other Project Construction Accounts as deemed necessary or advisable by the Authority. If long-term Debt has been sold to finance or refinance a Project, and funds in the related Project Construction Account are determined by the Authority in its sole discretion to be in excess of the amount needed for completion of the Project, the Authority shall apply such excess funds to the payment of the next scheduled debt service on Debt for such Project, to the redemption or defeasance of such Debt, or otherwise as permitted by law to the extent permitted by the Resolution.

### **Payment of Project Costs**

Disbursement of funds on deposit in Project Construction Accounts will be made upon the submission of proper documentation from the Board approved by the Authority. Submission by the Board of a request for disbursement constitutes a representation by the Board that the expenses presented for payment constitute proper and valid charges related to the Project and constitute Project Costs, and that all covenants and representations made to the Authority with respect to the Project, whether in the Agreement or otherwise, continue to be true, complete and accurate.

## **Covenants and Representations**

The Board covenants and represents with respect to each Project, among other things, that: (a) all necessary approvals or authorizations by the State (or any agency, subdivision or subentity) with respect to the Project have been or will be obtained; (b) the Board will neither (i) permit any encumbrance which materially affects the Board's ability to honor its commitments under the Financing Agreement nor (ii) assign the Financing Agreement or the Board's rights, title or interest in or to any Project; (c) the Board will operate, maintain and keep, or cause the operation, maintenance and functioning of, the Project in good repair and condition, including the provision of and payment for necessary utilities and insurance coverage in accordance with State policy; (d) the Board will comply with all laws, rules and regulations governing the Institution and the Project; and (e) the Board will take no action, nor will it fail to take any action, which would cause the Authority to violate any tax covenant with respect to any Project.

## **Annual Financing Charges; Administrative Fees; and Legislative Appropriations**

For a summary of certain provisions of the Financing Agreements relating to the establishment, payment and subordination of Annual Financing Charges, Administrative Fees and Legislative Appropriations, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" in the Official Statement.

## **Interest of Debtholders**

The Authority and the Board acknowledge that the existence and terms and provisions of the Agreement serve as an inducement to Debtholders to purchase, and serve to secure, Debt. Accordingly, all covenants and agreements of the Authority and the Board under the Financing Agreement are declared therein to be for the benefit of such holders. Notwithstanding the foregoing, such holders shall have no right under the Financing Agreement to directly enforce the Financing Agreement, but may do so only to the extent permitted and as provided by the related Resolution.

## **Assignments**

The Board authorizes the Authority to pledge, assign, and transfer its right to receive and collect Annual Financing Charges, Administrative Fees, and Legislative Appropriations, together with its rights to enforce the Financing Agreement. The Authority has pledged and assigned the Annual Financing Charges and Legislative Appropriations to the Trustee for the benefit of the holders of the Bonds and for the application thereof in accordance with the provisions of the Resolution, and has granted the Trustee the legal right to enforce such pledge and assignment and the provisions of the Agreements providing for the payment thereof. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION - Pledge and Assignment of Annual Financing Charges and Legislative Appropriations" in the Official Statement.

## **Amendment**

Any provision of the Financing Agreement may be amended by agreement of the Authority and the Board; provided, however, that no such amendment shall adversely affect or impair in any way (i) the obligation of the Board to pay Annual Financing Charges or Administrative Fees, or (ii) the deduction from appropriations, and payment to the Authority, of Legislative Appropriations required to pay Annual Financing Charges, in the case of each of clauses (i) and (ii) at the times, in the manner and in the amounts provided in the Agreement, or (iii) any provision of the Agreement made or provided for the purpose of assuring payment of such Annual Financing Charges or Administrative Fees.

## **Additional Information**

The Board agrees to furnish to the Authority such additional information concerning the financial condition of the Board and any Institution as the Authority may from time to time reasonably request including, without limiting the generality of the foregoing, as and to the extent that the Authority shall determine that disclosure of such information is necessary in order to comply with any undertakings made by the Authority pursuant to Rule 15c2-12 of the Securities and Exchange Commission or with any other applicable legal requirements.



## SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a brief summary of certain provisions of the Resolution, summaries of certain other provisions of which are contained elsewhere in this Official Statement. This and such other summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the Resolution, copies of which are available at the offices of the Authority and the Trustee. For definitions of certain terms used herein, see Appendix C - "GLOSSARY OF CERTAIN TERMS".

### Authorization

The Resolution authorizes the issuance of Bonds in Series pursuant to Supplemental Resolutions, for any purpose authorized by the Act. For a summary of the conditions for the issuance of Bonds and their security and sources of payment, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" in the Official Statement.

### Pledge and Assignment of Annual Financing Charges and Legislative Appropriations

The Annual Financing Charges and Legislative Appropriations, and all rights under the Financing Agreements or otherwise to receive the same, which are to be transferred to the Funds or Accounts held by the Trustee, if any, are pledged and assigned to the Trustee for the benefit of the Owners of the Bonds and for the application thereof in accordance with the provisions of the Resolution, and the Trustee shall have the legal right to enforce such assignment. Regardless of such pledge and assignment, the Trustee shall have the legal right to enforce the provisions of the Agreements providing for the payment thereof in the manner provided in the Financing Agreements and the Resolution.

The Authority shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Annual Financing Charges, Legislative Appropriations, and all rights under the Financing Agreements or otherwise to receive the same, the Financing Agreements, and other moneys, securities, funds and property pledged and assigned under the Resolution and all the rights of the Bondowners under the Resolution against all claims and demands of all Persons whomsoever.

### Certain Provisions Relating to Credit Facilities, Qualified Swaps and Other Arrangements

The Authority may include such provisions in a Supplemental Resolution authorizing the issuance of a Series of Bonds secured by a Credit Facility as the Authority deems appropriate, including but not limited to:

- (1) So long as the Credit Facility provides security and not merely liquidity, that the providers thereof shall have all or any of the rights and remedies of the Owners of the Bonds to which such Credit Facility relates and that the related Reimbursement Obligations shall have all or any of the payment, security and other rights applicable to the Bonds to which such Reimbursement Obligations relate.
- (2) In the event that the principal, Sinking Fund Installments, if any, and Redemption Price of and interest due on any Bonds Outstanding shall be paid under the provisions of a Credit Facility, the issuer of such Credit Facility shall be subrogated to the rights of such Bondowners in accordance with the terms of such Credit Facility.
- (3) Interest on any Reimbursement Obligation calculated at any rate, whether or not higher than the interest rate on the related Bond, and principal amortization requirements with respect to such Reimbursement Obligation, may be secured by a pledge of and a lien on any of the items pledged in the Resolution for the security of the Bonds on a parity with the lien created by the Resolution. A Reimbursement Obligation shall not be secured by the Debt Service Reserve Fund unless the Bonds to which it relates are so secured. Reimbursement Obligations shall not include any payments of any fees, expenses, indemnification, or other obligations to any such provider, which payments shall be Subordinated Obligations payable from the General Fund. All Reimbursement Obligations shall be deemed to be a part of the Series of Bonds to which the Credit Facility which gave rise to such Reimbursement Obligations relates. Reimbursement Obligations may be evidenced by Bonds designated as "Bank Bonds."

In connection with the issuance of a Series of Bonds or at any time thereafter so long as a Series of Bonds remains Outstanding, the Authority may, to the extent from time to time permitted pursuant to law, enter into Qualified Swaps relating to such Bonds. The Authority's obligation to make any payment under any Qualified Swap may be secured by a pledge of, and a lien on, the items pledged in the Resolution for the security of the Bonds on a parity with the lien created by the Resolution or be payable from or secured by amounts on deposit in the Debt Service Fund or Debt Service Reserve Fund, or shall constitute Subordinated Obligations payable from the General Fund, as determined by the Authority; provided, however, that any optional or mandatory termination payments shall constitute Subordinated Obligations. If a Qualified Swap is payable from and/or secured by the Debt Service Fund and Debt Service Reserve Fund, the Authority may provide by Supplemental Resolution for a recalculation of the Debt Service Reserve Requirement for any Bonds to take into account the Authority's debt service payment obligations on such Bonds as affected by such Qualified Swap.

### **Funds and Accounts**

For a description of the flow of funds under the Resolution and of the application of the Debt Service Fund and Debt Service Reserve Fund, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Flow of Funds" and "- Debt Service Reserve Fund" in the Official Statement.

### **Construction Fund**

The Authority shall establish in the Construction Fund, to be held by the State Treasurer or, at the direction of the State Treasurer, a separate custodian, a separate Account with respect to each Project. As promptly as practicable after the delivery of any Series of Bonds or Subordinated Obligations to pay Project Costs, the Authority shall deposit into each Project Construction Account the amount of the proceeds derived from the sale of such Series of Bonds or Subordinated Obligations, if any, as shall be directed by or pursuant to the Supplemental Resolution or other resolution or indenture authorizing the issuance thereof. Moneys on deposit in or credited to a Project Construction Account shall be used by the Authority for payment of the Project Costs of the Project to which the Project Construction Account relates. The Authority may transfer from a Project Construction Account to the General Fund such amounts as the Authority shall determine is necessary to pay Administrative Expenses of the Authority chargeable to the Project to which such Project Construction Account relates.

Upon completion of a Project the moneys, if any, remaining in the Project Construction Account for such Project, after making provision for the payment of allocable Administrative Expenses and Project Costs then unpaid, either shall be reallocated by the Authority to other Projects in accordance with the Financing Agreements or shall be applied (or, if the Debt Service Fund is then held by the Trustee, transferred by the State Treasurer to the Trustee and applied by the Trustee) as directed by the Authority to the payment of principal, Sinking Fund Installments, if any, or Redemption Price of or interest on Bonds issued for the related Project.

### **Capitalized Interest Accounts**

The Supplemental Resolution authorizing any Series of Bonds may establish a separate Account within the Debt Service Fund for each Project. Moneys in the Capitalized Interest Accounts shall be used, to the extent sufficient therefor, for the purpose of paying interest on the Series of Bonds in respect of which such moneys have been set aside, either directly therefrom or by transfer to the Debt Service Fund, prior to the payment of such interest from Annual Financing Charges.

### **Investment of Funds and Accounts**

Moneys in all Funds and Accounts shall be invested in Investment Obligations, except as may be otherwise limited by Supplemental Resolution.

Unexpended Bond proceeds and all Annual Financing Charges, Administrative Fees, and Legislative Appropriations, and investment earnings allocable thereto, held in Project Construction Accounts or in other Funds or Accounts, may be commingled for investment purposes either as a separate fund or as part of a common fund with other moneys of the Authority or the State, or otherwise; provided that (i) such investments and the income or interest earned, profits realized or losses suffered thereby shall be allocated and credited to the appropriate Funds or Accounts or otherwise in accordance with Authority and State policy, and (ii) all Funds and Accounts so commingled for investment purposes shall nevertheless be accounted for separately as required by the Resolution. Notwithstanding the foregoing, moneys on deposit with the State Treasurer (other than in connection with defeasance) may be invested at a rate or return fixed from time to time pursuant to State policy, without the necessity of allocating and crediting any particular investment (but only an amount invested) and without regard to actual investment, income, interest, profits or losses.

Except as otherwise provided in the Resolution, the Trustee or the State Treasurer, as the case may be, shall sell at the best price obtainable by the Trustee or the State Treasurer, as the case may be, through its ordinary and customary practices, or present for redemption or exchange, or as directed in writing by the Authority, any Investment Obligation held by it in any Fund or Account whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund or Account for which such investment was made.

### **Certain Covenants of the Authority**

For a description of the agreement of the Authority on behalf of the State, pursuant to the Act, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Statutory Covenant" in the Official Statement.

*Creation of Liens.* Until the pledge created in the Resolution shall be discharged and satisfied as provided therein, the Authority shall not issue any bonds or other evidences of indebtedness, other than the Bonds (or any related Reimbursement Obligations) secured by a prior or equal pledge of the Annual Financing Charges, Legislative Appropriations, and all rights under the Financing Agreements or otherwise to receive the same, the Financing Agreements, or any moneys and securities in the Debt Service Fund and Debt Service Reserve Fund, and shall not create or cause to be created any lien or charge equal or prior to the Bonds (or any related Reimbursement Obligations) on Annual Financing Charges Legislative Appropriations, and all rights under the Financing Agreements or otherwise to receive the same, the Financing Agreements, in each such case except as permitted by the Resolution, or on any moneys and securities in the Debt Service Fund and Debt Service Reserve Fund.

*Tax Exemption.* The Authority may include in the applicable Supplemental Resolution for any Series of Bonds any and all covenants necessary or appropriate to maintain the exclusion from gross income for purposes of federal income taxation of interest on such Bonds. See "TAX MATTERS" in the Official Statement. The Authority may issue Bonds the interest on which is not intended to be excluded from gross income, and therefore may be taxable, for purposes of federal income taxation.

*Compliance with and Amendment of Financing Agreements.* The Authority will at all times comply with the covenants, terms and conditions of the Financing Agreements and shall take all steps, actions and proceedings as may be necessary in order to require compliance by the Boards with the covenants, terms and conditions thereof, the breach of which would in any way materially adversely affect or impair the obligation of the Boards to pay Annual Financing Charges and Legislative Appropriations at the times and in the manner and amounts provided in the Financing Agreements.

The Authority will not amend any Financing Agreement in any manner that would materially adversely affect or impair the obligation of the applicable Board to pay Annual Financing Charges or Legislative Appropriations at such times, in such manner and in such amounts sufficient, together with other moneys available for the purpose, to pay the principal of and Sinking Fund Installments and interest on the Bonds as the same becomes due and payable, but reserves the right to amend the Financing Agreements in any other respect without the consent of any Fiduciary or any Bondowner.

### **Supplemental Resolutions; Amendments**

The Authority may at any time or from time to time adopt Supplemental Resolutions without the consent of Bondowners and, except as may be agreed to in or in connection with any Credit Facility or Qualified Swap, the provider of any Credit Facility or Qualified Swap, for any one or more of the following purposes: (1) to authorize Bonds of a Series and, in connection therewith, specify and determine any matters and things relative to such Bonds which are not contrary to or inconsistent with the Resolution as theretofore in effect; (2) to establish for any Series of Bonds a separate Account in the Debt Service Reserve Fund which shall be permitted to be applied solely to the payment of Bonds of such Series, provided that (i) the Bonds of such Series shall have no claim or lien on nor be payable from any other amounts in the Debt Service Reserve Fund, (ii) the Bonds of such Series shall be excluded from the calculation of the Debt Service Reserve Requirement for all other Outstanding Bonds, and (iii) the amount required to be on deposit in such separate Accounts shall be specified or calculated in a manner specified in the Supplemental Resolution authorizing the Bonds of such Series, but in no event shall such amount, after giving effect to any Reserve Fund Credit Facility deposited in any such separate Account in the Debt Service Reserve Fund, be in excess of the amount that would otherwise be the Debt Service Reserve Requirement for such Series of Bonds assuming that such Series of Bonds were the only Series of Bonds Outstanding under the Resolution; (3) to modify, amend or supplement the Resolution in any manner in order to obtain or provide for or with respect to a Credit Facility, Reserve Fund Credit Facility or Qualified Swap with respect to any Series of Bonds, so long as the Authority determines that such Supplemental Resolution does not materially adversely affect the rights of the Owners of Outstanding Bonds; (4) to add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds, provided that such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution as theretofore in effect; (5) to add to the Resolution any provisions relating to the application of interest

earnings in any Fund or Account required by law to preserve the exclusion from gross income for Federal income tax purposes of interest received on any Bonds then Outstanding or to be issued or the exemption of interest received on such Bonds from State income taxation; (6) to modify or eliminate any Debt Service Reserve Requirement in excess of the minimum required therefor as provided in the definition thereof; (7) to modify, amend or supplement the Resolution in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar Federal statute, or to permit the qualification of any Bonds for sale under the securities laws of any of the states of the United States of America, and to add such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939, as amended, or similar Federal statute; (8) with the consent of the Trustee, (i) to cure any ambiguity, or defect or inconsistent provision in the Resolution, or (ii) to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable in the event any such modifications are not contrary to or inconsistent with the Resolution as theretofore in effect; or to make any other modification or amendment of the Resolution which the Trustee shall in its sole discretion determine will not have a material adverse effect on the rights of Bondowners, provided that in making any such determination, the Trustee may conclusively rely upon a Counsel's Opinion or certificate of any Person deemed by the Trustee in its sole discretion to be reliable; (9) to comply with the requirements of any Rating Agency in order to maintain or improve a rating on the Bonds by such Rating Agency; or (10) to modify any of the provisions of the Resolution in any respect whatsoever, provided that such modification shall be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Resolution either shall cease to be Outstanding or the Owners of the requisite percentage of the principal amount of such Bonds shall have consented thereto.

Any modification or amendment of the Resolution and of the rights and obligations of the Authority and of the Owners of the Bonds under the Resolution, in any particular, may be made by a Supplemental Resolution, with the written consent (a) of the Owners of at least fifty-one percent (51%) in principal amount of the Bonds Outstanding at the time such consent is given, or (b) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Owners of at least fifty-one percent (51%) in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, or (c) in case the modification or amendment changes the amount or date of any Sinking Fund Installment, of the Owners of one hundred percent (100%) in principal amount of the Bonds of the particular Series, maturity and interest rate entitled to such Sinking Fund Installment Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds. No such modification or amendment shall (a) permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Owner of such Bond, (b) permit the creation of any pledge, lien, charge or encumbrance of or upon any of the items purported to be pledged pursuant to the Resolution, which pledge, lien, charge or encumbrance would be prior to, or of equal rank with, the pledge or source of payment for the Bonds created by the Resolution, without the consent of the Owners of all Outstanding Bonds affected by such change, or deprive any Owner of any Outstanding Bond of the benefit of such pledge or source of payment for the Bonds, without the consent of such Owner, except as permitted by the Resolution, (c) create, with respect to the pledge of the items set forth in the Resolution, a preference or priority of any Bond over any other Bond without the consent of each Owner of a Bond affected by such change, or (d) reduce the percentages of the Bonds the consent of the Owners of which is required to waive an Event of Default or otherwise effect any such modification or amendment. For such purposes, a Series shall be deemed to be affected by a modification or amendment of the Resolution if the same materially adversely affects the rights of the Owners of Bonds of such Series. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, Bonds of any particular Series or maturity would be affected by any modification or amendment of the Resolution and any such determination shall be binding and conclusive on the Authority and all Owners of Bonds. The Trustee may receive an opinion of counsel, including a Counsel's Opinion, as conclusive evidence as to whether Bonds of any particular Series or maturity would be so affected by any such modification or amendment of the Resolution.

Notwithstanding anything in the Resolution to the contrary, the consent of Owners of any Series of additional Bonds to be issued under the Resolution shall be deemed given if the underwriters or initial purchasers for resale thereof consent in writing to any modification or amendment; provided, however, that such modification, amendment and consent are disclosed in the official statement or other offering document pursuant to which such Series of additional Bonds is offered and sold to the public.

For purposes of amendments to the Resolution, but only so long as the Credit Facility provider has not defaulted on its obligations under the Credit Facility, (i) the provider of a Credit Facility shall be considered the sole Owner of all Bonds to which such Credit Facility relates, except as otherwise provided in an applicable Supplemental Resolution, and (ii) any amendment provision of the Resolution may be waived by such provider with respect to its consent to any amendment, by an instrument in writing filed with the Authority and the Trustee.

The Authority shall furnish written notice to each Rating Agency of any amendment, change or modification of the Resolution.

### **Events of Default**

Each of the following events is an "Event of Default": (1) the Authority shall default in the payment of the principal, Sinking Fund Installments, if any, or Redemption Price of or interest on any Bond when and as the same shall become due, whether at maturity or upon call for mandatory redemption or otherwise, which default shall continue for a period of thirty (30) days; (2) the pledge created in the Resolution shall, at any time and for any reason, cease to be in full force and effect or a judgment or order of any court of competent jurisdiction, or of any arbitrator or panel of arbitrators, as to which all appeals have been exhausted, shall be rendered which shall declare the pledge to be null and void, or shall declare that the pledge does not establish in any material respect the lien it purports to establish, or that the pledge is not for the exclusive benefit of the Owners of the Bonds, except as provided in or permitted by the Resolution; (3) the Authority shall fail or refuse to comply with the provisions of the Act as then in effect, or shall default in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Resolution, any Supplemental Resolution, or in the Bonds, and such failure, refusal or default shall continue for a period of ninety (90) days after written notice thereof (specifying such default and requiring that such notice is a "Notice of Default" hereunder) is given to the Authority by the Trustee or to the Authority and the Trustee by the Owners of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds; however, in the event that the default be such that it cannot be corrected within such ninety (90) day period, it shall not constitute an Event of Default if corrective action is instituted by the Authority within such period and diligently pursued (as determined by the Trustee) until the default is corrected; (4) a court having jurisdiction in the premises shall enter a decree or order providing for relief in respect of the Authority or either Board in an involuntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the Authority or either Board, or for any substantial part of its property, or ordering the winding-up or liquidation of its affairs and such decree or order shall remain unstayed and in effect for a period of ninety (90) days; or (5) the Authority or either Board shall commence a voluntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of the Authority or either Board, or for any substantial part of its property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any action in furtherance of the foregoing.

Notwithstanding the foregoing, nothing in the Resolution shall preclude the Authority from seeking and obtaining from the General Assembly a change in law, to limit, modify, rescind, repeal or otherwise alter the character of the pledged items or to substitute like or different sources of fees, charges, appropriations or other receipts as pledged revenues if and when adequate provisions shall be made by law for the protection of the Owners of Outstanding Bonds pursuant to the proceedings under which the Bonds are issued, including changing or altering the method of establishing fees, charges and appropriations as contemplated by the Act. The Authority (or the Trustee at the request of the Authority) shall mail to the Bondowners notice of any such change or alteration pursuant to such proviso. The Authority shall file with the Trustee, or the Trustee shall retain on file, proof of their respective mailing of such notice to Bondowners. Such change or alteration shall be deemed conclusively binding upon the Authority, each Fiduciary and the Owners of all Bonds at the expiration of thirty (30) days after the filing with the Trustee of the proof of the mailing of notice referred to above, except in the event of a final decree of a court of competent jurisdiction setting aside such change or alteration in a legal action or equitable proceeding for such purpose commenced within such thirty (30) day period.

### **Remedies**

Upon the happening and continuance of (i) any Event of Default specified in clause (1), (4) or (5) of the first paragraph under "Events of Default" above, the Trustee shall proceed, and (ii) any other Event of Default, the Trustee may proceed, and upon the written request of the Owners of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds or if the Event of Default arises from the failure of the Authority to duly and punctually perform the tax covenants contained in the Resolution, twenty-five per centum (25%) in principal amount of the Outstanding Bonds of such Series affected thereby, shall proceed, in its own name, to protect and enforce its rights and the rights of the Bondowners by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights: (1) by suit, action or proceeding at law or in equity in any court of competent jurisdiction, enforce all rights of the Bondowners, including the right to require the Authority to enforce the Agreements and collect the Annual Financing Charges and Legislative Appropriations payable thereunder, or to carry out any other covenant or agreement with Bondowners under the Resolution and to perform its duties under the Act, the Agreements and the Resolution; (2) bring suit upon the Bonds; (3) by action or suit, require the Authority to account as if it were the trustee of an express trust for the Owners of the Bonds; (4) by action or suit, enjoin any acts or things which may be unlawful or in violation of the rights of

the Owners of the Bonds; or (5) in accordance with the provisions of the Act, declare all Bonds due and payable, and if all defaults shall be made good, then, with the written consent of the Owners of not less than twenty-five percentum (25%) in principal amount of the Outstanding Bonds, to annul such declaration and consequences, but no such annulment shall extend to or effect any subsequent default or impair or exhaust any right or power consequent thereon.

All remedies conferred upon or reserved to the Owners of Bonds under the Resolution may be conferred upon and reserved in lieu thereof to the provider of a related Credit Facility authorized by a Supplemental Resolution. Nothing herein shall preclude the Authority from providing in an applicable Supplemental Resolution, or in any Credit Facility authorized thereby, that the exercise of any remedy hereunder or the waiver of any Event of Default hereunder by the Trustee or the Owner of any such Bond shall be subject to the prior written consent of the provider of any related Credit Facility.

No Owner of any Bond shall have any right to institute any suit, action, or other proceeding hereunder, or for the protection or enforcement of any right under the Resolution or any right under law unless such Owner shall have given to the Trustee written notice of the event of default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the Owners of not less than twenty-five percent (25%) in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time.

In the case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relating to the Authority, the Board or any Institution, or any property of the Authority, the Board or any Institution, the Trustee (whether or not the principal of the Bonds shall then be due and payable by acceleration or otherwise, and whether or not the Trustee shall have made any demand upon the Authority for the payment of overdue principal and interest) shall be entitled and empowered, by intervention in such proceeding or other means (1) to file and prove a claim for the whole amount of the principal, Redemption Price, if any, and interest owing and unpaid in respect of the Bonds then Outstanding and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Owners allowed in such proceeding; and (2) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same.

Prior to the declaration of maturity of the Bonds as provided in the Resolution, the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may on behalf of the Owners of all of the Bonds waive any past default under the Resolution and its consequences, except a default in the payment of interest on or principal of or premium, if any, on any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

The Trustee shall promptly mail to the Bondowners notice of each Event of Default hereunder known to the Trustee within fifteen (15) Business Days after knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice; provided, however, that, except in the case of default in the payment of the principal, Sinking Fund Installment, if any, or Redemption Price, if any, of or interest on any of the Bonds, or in the making of any payment required to be made into the Debt Service Fund or the Debt Service Reserve Fund, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interests of the Bondowners.

## **Defeasance**

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Fiduciaries at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect of the Resolution, subject to an election of the Authority to the contrary. Any Outstanding Bonds of any Series shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect, but subject to such election, of the Resolution if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Registrar instructions accepted in writing by the Registrar to give notice of redemption, as provided in the Resolution, on said date of such Bonds (other than Bonds which have been purchased by a Paying Agent at the direction of the Authority or purchased or otherwise acquired by the Authority and delivered to a Paying Agent as hereinafter provided prior to the mailing of such notice of redemption), (b) there shall have been deposited with any Paying Agent either (i) moneys in an amount which shall be sufficient, or

(ii) Defeasance Obligations the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with such Paying Agent at the same time, shall be sufficient to pay, when due, the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Registrar in form satisfactory to it instructions to mail, as soon as practicable, a notice to the Owners of such Bonds, at their last addresses appearing upon the registry books at any time (but not more than fifteen (15) days) prior to such mailing, that the deposit required by (b) above has been made with a Paying Agent and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or redemption date upon which moneys are expected to be available for the payment of the principal or Redemption Price, if applicable, of said Bonds (other than Bonds which have been purchased by a Paying Agent at the direction of the Authority or purchased or otherwise acquired by the Authority and delivered to a Paying Agent prior to the mailing of the notice of redemption referred to in clause (a) hereof). Such Paying Agent shall, as and to the extent necessary, apply moneys held by it pursuant to this Section to the retirement of Bonds in amounts equal to the unsatisfied balances (determined as provided in Section 604) of any Sinking Fund Installments with respect to such Bonds, all in the manner provided in the Resolution.

### **Unclaimed Moneys**

Any moneys held by a Fiduciary in trust for the payment and discharge of the principal or Redemption Price of or interest on any of the Bonds which remain unclaimed for three years (or such other period as may at the time be prescribed by the laws of the State) after the date when such principal, Redemption Price or interest, respectively, became due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for three years (or such other period as may be prescribed by the laws of the State) after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such principal, Redemption Price or interest, respectively, became due and payable, shall, at the written request of the Authority, be repaid by the Fiduciary to the Authority, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondowners shall look only to the Authority for the payment of such Bonds.

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**BOOK-ENTRY ONLY SYSTEM**

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Offered Bonds. The Offered Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of each Series of the Offered Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of the Offered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Offered Bonds on DTC's records. The ownership interest of each actual purchaser of each Offered Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Offered Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Offered Bonds, except in the event that use of the book-entry system for the Offered Bonds is discontinued.

To facilitate subsequent transfers, all Offered Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Offered Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Offered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Offered Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time. Beneficial Owners of the Offered Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Offered Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Offered Bond documents. For example, Beneficial Owners of the Offered Bonds may wish to ascertain that the nominee holding the Offered Bonds for their

benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to Cede & Co. If less than all of the Offered Bonds of a maturity within a Series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity of such Series to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Offered Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Offered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest and redemption premium, if any, payments on the Offered Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or any Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Authority or any Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption premium, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or any Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct or Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Offered Bonds at any time by giving reasonable notice to the Authority. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be prepared and delivered to DTC.

THE FOREGOING INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY ONLY SYSTEM HAS BEEN OBTAINED FROM DTC, A SOURCE THAT THE AUTHORITY BELIEVES TO BE RELIABLE, BUT THE AUTHORITY TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THE AUTHORITY, NOR THE TRUSTEE, REGISTRAR AND PAYING AGENT, CAN MAKE ANY ASSURANCE THAT DTC OR THE DTC PARTICIPANTS WILL ACT IN A MANNER DESCRIBED HEREIN, NOR WILL THEY HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS OR BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC ANY DIRECT DTC PARTICIPANT, OR BY ANY DIRECT DTC PARTICIPANT OR INDIRECT DTC PARTICIPANT TO ANY BENEFICIAL OWNER OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM IF ANY, OR INTEREST ON OFFERED BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC OR ANY DTC PARTICIPANT TO ANY BENEFICIAL OWNER OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATIONS TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BOND DOCUMENTS TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF OFFERED BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE OFFERED BONDS.

So long as Cede & Co. is the registered owners of the Offered Bonds, as nominee for DTC, references in the Official Statement to the Bondholders or registered owners of the Offered Bonds (other than under the caption "Tax Matters" in the Official Statement) shall mean Cede & Co. or any other DTC nominee, as aforesaid, and shall not mean the Beneficial Owners of the Offered Bonds.

## SUMMARY OF CERTAIN PROVISIONS OF THE CONTINUING DISCLOSURE UNDERTAKING

The following is a brief summary of certain provisions of the Continuing Disclosure Undertaking. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Continuing Disclosure Undertaking, copies of which are available at the offices of the Authority. For definitions of certain terms used but not defined herein, see Appendix C - "GLOSSARY OF CERTAIN TERMS".

The Authority has authorized a Continuing Disclosure Undertaking (the "Undertaking") with respect to the Offered Bonds to assist the Underwriters in complying with U.S. Securities and Exchange Commission ("SEC") Rule 15c2-12(b)(5) (the "Rule"). In the Undertaking, the Authority will agree to provide the Annual Financial Information described below with respect to each fiscal year of the Authority, commencing with the fiscal year ending June 30, 2006, by no later than 7 months after the end of the respective fiscal year, to (i) each nationally recognized municipal securities information repository ("NRMSIR") and (ii) the state information depository, if any, operated by or on behalf of the State for purposes of the Rule ("SID"; as of the date hereof, there is no SID).

"Annual Financial Information" means updated versions of the following financial information and operating data contained in the Official Statement relating to the Offered Bonds with respect to the Authority, for each fiscal year of the Authority:

- Outstanding Bonds (see "The Authority – Outstanding Indebtedness of the Authority")
- Authorized and Outstanding Commercial Paper (see "Security and Sources of Payment for the Bonds – Subordinated Obligations; Commercial Paper")
- Appendix B – Selected Statistical Information

The descriptions contained above are of general categories or types of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided in lieu of such information.

Annual Financial Information will include the annual financial statements of the Authority, audited by such auditors as shall then be required or permitted by State law ("Audited Financial Statements"), if available, or unaudited financial statements. If not provided as part of Annual Financial Information by the date referred to above, because not available, the Authority will provide Audited Financial Statements, when and if available, to each NRMSIR and the SID. Audited Financial Statements will be prepared in accordance with generally accepted accounting principles for governmental units as prescribed by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them ("GAAP"). Audited financial statements for at least the last five fiscal years are included in the Authority's Annual Reports which have been filed with each NRMSIR.

In the Undertaking, the Authority also agrees to provide, in a timely manner, notice of each of the following events with respect to the Offered Bonds, if material, to (i) either the Municipal Securities Rulemaking Board ("MSRB") or each NRMSIR and (ii) to the SID: principal and interest payment delinquencies; non-payment related defaults; unscheduled draws on debt service reserves reflecting financial difficulties; unscheduled draws on credit enhancements reflecting financial difficulties; substitution of credit or liquidity providers, or their failure to perform; adverse tax opinions or events affecting the tax-exempt status of the security; modifications to rights of security holders; bond calls; defeasances; release, substitution, or sale of property securing repayment of the securities; and rating changes. The Authority will also provide, in a timely manner, notice of any failure of the Authority to provide the Annual Financial Information by the date specified above to (i) either the MSRB or each NRMSIR and (ii) the SID.

The Authority may satisfy its obligations under the Continuing Disclosure Undertaking to file any notice, document or information with a NRMSIR or SID (i) solely by transmitting such filing to the Texas Municipal Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the SEC has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004, or (ii) by filing the same with any dissemination agent or conduit, including any "central post office" or similar entity, assuming or charged with responsibility for accepting notices, documents or information for transmission to such NRMSIR or SID, to the extent permitted by the SEC or SEC staff or required by the SEC. For this purpose, permission shall be deemed to have been granted by the SEC staff if and to the extent the agent or conduit has received a an interpretive letter, which has not been withdrawn, from the SEC staff to the effect that using the agent or conduit to transmit information to the NRMSIRs and the SID will be treated for purposes of the Rule as if such information were transmitted directly to the NRMSIRs and the SID.

The Undertaking will be effective upon the issuance of the Offered Bonds and will terminate upon the legal defeasance, prior redemption or payment in full of all of the Offered Bonds. The Undertaking, or any provision thereof, shall be null and void in the event that the Authority (i) receives an opinion of counsel to the effect that those portions of the Rule which require the Undertaking, or such provision, as the case may be, do not or no longer apply to the Offered Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (ii) delivers copies of such opinion to each NRMSIR and the SID. The Undertaking also may be amended without the consent of the holders of the Offered Bonds in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules and regulations) or in interpretations thereof, or a change in the identity, nature or status of the Authority or the type of business conducted thereby, or if an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, which is applicable to the Undertaking, all as described in the Undertaking. Copies of any such amendment are required to be delivered to each NRMSIR and the SID.

The provisions of the Undertaking shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Offered Bonds, except that beneficial owners of Offered Bonds shall be third-party beneficiaries of the Undertaking and shall be deemed to be holders of Offered Bonds for purposes of the next sentence. The obligations of the Authority to comply with the provisions of the Undertaking are enforceable by any holder of outstanding Offered Bonds; the holders' rights to enforce the provisions of the Undertaking are limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Authority's obligations under the Undertaking. Any failure by the Authority to perform in accordance with the Undertaking will not constitute a default or an event of default under the resolutions authorizing the Offered Bonds or State law and shall not result in any acceleration of payment of the Offered Bonds, and the rights and remedies provided by such resolutions and applicable State law upon the occurrence of such a default or an event of default shall not apply to any such failure.

The Undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of the Undertaking shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent the Undertaking addresses matters of federal securities laws, including the Rule, the Undertaking shall be construed in accordance with such federal securities laws and official interpretations thereof.

The Authority has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in the Rule.

FORM OF PROPOSED OPINION OF BOND COUNSEL

[Closing Date]

Tennessee State School Bond Authority  
Nashville, Tennessee

Dear Sirs:

**TENNESSEE STATE SCHOOL BOND AUTHORITY  
HIGHER EDUCATIONAL FACILITIES  
SECOND PROGRAM BONDS  
2007 SERIES A, \$33,730,000  
2007 SERIES B (FEDERALLY TAXABLE), \$14,040,000  
2007 REFUNDING SERIES C, \$89,940,000**

At your request, we have examined into the validity of \$33,730,000 principal amount of Higher Educational Facilities Second Program Bonds, 2007 Series A (the “2007 Series A Bonds”), \$14,040,000 principal amount of Higher Educational Facilities Second Program Bonds, 2007 Series B (Federally Taxable) (the “2007 Series B Bonds”) and \$89,940,000 principal amount of Higher Educational Facilities Second Program Bonds, 2007 Refunding Series C (the “2007 Series C Bonds” and, collectively with the 2007 Series A Bonds and 2007 Series B Bonds, the “2007 Bonds”), of the Tennessee State School Bond Authority (the “Authority”), a corporate agency and instrumentality of the State of Tennessee (the “State”).

The 2007 Bonds are issued under and pursuant to the Tennessee State School Bond Authority Act (Section 49-3-1201 et seq., Tennessee Code Annotated) as amended to date (the “Act”), the Higher Educational Facilities Second Program General Bond Resolution adopted by the Authority on April 27, 1998, as amended (the “General Resolution”) and a Supplemental Resolution of the Authority adopted on January 3, 2007 (the “Supplemental Resolution” and, collectively with the General Resolution, the “Resolution”).

We have examined the Constitution and laws of the State of Tennessee; certified copies of proceedings of the Authority authorizing the issuance of the 2007 Bonds, including the Resolution; a certified copy of a Second Program Financing Agreement by and between the Authority and the Board of Trustees of The University of Tennessee (the “Board of Trustees”) dated as of November 1, 1997, as amended to date; a certified copy of a Second Program Financing Agreement by and between the Authority and the Board of Regents of the State University and Community College System of the State of Tennessee (the “Board of Regents” and, together with the Board of Trustees, the “Boards”) dated as of November 1, 1997, as amended to date; certified copies of proceedings of the Authority authorizing the execution and delivery of said Second Program Financing Agreements (collectively, the “Second Program Financing Agreements”); such other instruments, documents, certificates and proceedings, and applicable law, as we have considered appropriate for purposes of this opinion; and a specimen 2007 Bond of each series.

Based on the foregoing, we are of the opinion that:

1. The Authority has the right and power under the Act to adopt the Resolution and the Resolution has been duly and lawfully adopted by the Authority, is in full force and effect, is valid and binding upon the Authority and is enforceable against the Authority in accordance with its terms. The Resolution creates the valid pledge which it purports to create of the Annual Financing Charges and Legislative Appropriations (as each is defined in the Resolution), and all rights under the Second Program Financing Agreements or otherwise to receive the same, and moneys and securities held or set aside under the Resolution, subject to the application thereof to the purposes and on the conditions permitted by the Resolution.
2. The 2007 Bonds have been duly and validly authorized and issued in accordance with the laws of the State, including the Constitution of the State and the Act, and in accordance with the Resolution, and are entitled

to the benefits of the Resolution and of the Act. The 2007 Bonds are valid and binding obligations of the Authority as provided in the Resolution, and are enforceable against the Authority in accordance with their terms and the terms of the Resolution, payable solely from the Annual Financing Charges, Legislative Appropriations and other moneys and securities held or set aside under the Resolution, subject to the application thereof to the purpose and on the conditions permitted by the Resolution. The Authority reserves the right to issue additional bonds on the terms and conditions, and for the purposes, provided in the Resolution, on a parity of payment and security with the 2007 Bonds. The Authority has no taxing power, the State is not liable on the 2007 Bonds and the 2007 Bonds are not a debt of the State.

3. The Financing Agreements have been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the other parties thereto, constitute valid contractual obligations of the Authority. You have received opinions of counsel to the Board of Regents and counsel to the Board of Trustees to the effect that the respective Financing Agreements have been duly executed and delivered by the respective Boards and constitute valid contractual obligations thereof, and we express no opinion herein with respect thereto. The State has not waived the immunity of the State (including, for this purpose, the Authority and the Boards) from suit or extended its consent to be sued with respect to the Financing Agreements. Accordingly, monetary actions against the State (including the Authority and the Boards) for breach of contractual obligations relating to the Financing Agreements may be heard and determined under current law exclusively in the Tennessee Claims Commission, an administrative tribunal, where liability may be limited to actual damages and certain costs.

4. Under the existing laws of the State, the 2007 Bonds and income therefrom are free from taxation by the State or any county, municipality or political subdivision of the State, except for estate and gift taxes and taxes on transfers, and except to the extent such interest may be included within the measure of privilege taxes imposed pursuant to the laws of the State.

5. Under existing statutes and court decisions, (i) interest on the 2007 Series A Bonds and the 2007 Series C Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code") and (ii) interest on the 2007 Series A Bonds and the 2007 Series C Bonds is not treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax applicable to individuals and corporations; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. In rendering the opinions in this paragraph 5, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certification of fact, contained in certifications delivered on the date hereof by the Authority, the Boards and others with respect to the use of proceeds of the 2007 Series A Bonds and the 2007 Series C Bonds and the investment of certain funds, and other matters affecting the exclusion of interest on the 2007 Series A Bonds and the 2007 Series C Bonds from gross income for Federal income tax purposes under Section 103 of the Code, and (ii) compliance by the Authority and the Boards with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of the interest on the 2007 Series A Bonds and the 2007 Series C Bonds from gross income under Section 103 of the Code.

6. The original issue discount on the 2007 Series A Bonds and the 2007 Series C Bonds, if any, that has accrued and is properly allocable to any owner thereof is excluded from gross income for Federal income tax purposes to the same extent as interest on the 2007 Series A Bonds and the 2007 Series C Bonds.

7. Interest on the 2007B Bonds is included in gross income for Federal income tax purposes pursuant to the Code.

The opinions expressed in paragraphs 1, 2 and 3 above are subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws heretofore or hereafter enacted affecting creditors' rights, and are subject to the application of principles of equity relating to or affecting the enforcement of contractual obligations, whether such enforceability is considered in a proceeding in equity or at law.

We express no opinion herein as to (i) Federal, state or local tax consequences arising with respect to the 2007 Bonds, or the ownership or disposition thereof, except as stated in paragraphs 4, 5, 6 and 7 above, (ii) Federal, state, or local tax matters to the extent affected by any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves, or (iii) the accuracy, adequacy, sufficiency or completeness of the

Official Statement (or any update or amendment thereof or supplement thereto) of the Authority relating to the 2007 Bonds, or any other financial or other information which has been or may be supplied to purchasers or prospective purchasers of the 2007 Bonds.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or changes in law or in interpretations thereof, that may hereafter occur, or for any other reason.

Very truly yours,

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## **FINANCIAL SECURITY ASSURANCE INC.**

The following information, including the specimen of the Municipal Bond Insurance Policy and the Debt Service Reserve Insurance Policies, contained in this Appendix I has been furnished by Financial Security Assurance Inc. (for purposes of this Appendix, "Financial Security"). No representation is made by the Authority, the Trustee, the Paying Agent or the Registrar as to the adequacy or accuracy of such information as of the date hereof or as to the absence of material adverse changes in such information subsequent to the date hereof. None of the Authority, the Trustee, the Paying Agent or the Registrar has made any independent investigation of Financial Security or of the Municipal Bond Insurance Policy or the Debt Service Reserve Insurance Policies. There can be no assurance that Financial Security will be financially able to meet its contractual obligations under the Municipal Bond Insurance Policies or the Debt Service Reserve Insurance Policies.

### **Municipal Bond Insurance Policy**

Concurrently with the issuance of the Offered Bonds, Financial Security Assurance Inc. ("Financial Security") will issue Municipal Bond Insurance Policies (the "Policies") with respect to the 2007A Bonds maturing on and after 2010, the 2007B Bonds, and the 2007C Bonds maturing on and after 2010 (the "Insured Bonds"). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policies included as an exhibit to this Official Statement.

These Policies are not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law

### **Financial Security Assurance Inc.**

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2006, Financial Security's combined policyholders' surplus and contingency reserves were approximately \$2,581,107,000 and its total net unearned premium reserve was approximately \$1,992,163,000 in accordance with statutory accounting principles. At September 30, 2006, Financial Security's consolidated shareholder's equity was approximately \$3,058,987,000 and its total net unearned premium reserve was approximately \$1,590,538,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Municipal Bond Insurance Policy does not protect investors against changes in market value of the Insured Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Offered Bonds or the advisability of investing in the Offered Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

Specimens of the Municipal Bond Insurance Policies and of the Debt Service Reserve Insurance Policies follow.



**FINANCIAL  
SECURITY  
ASSURANCE®**

## **MUNICIPAL BOND INSURANCE POLICY**

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment



made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
31 West 52<sup>nd</sup> Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)





**FINANCIAL  
SECURITY  
ASSURANCE®**

**MUNICIPAL BOND DEBT SERVICE  
RESERVE INSURANCE POLICY**

ISSUER:

Policy No.:

BONDS:

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") as set forth in the documentation (the "Bond Document") providing for the issuance of and securing the Bonds, for the benefit of the Owners, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Security will make payment as provided in this Policy to the Trustee or Paying Agent on the later of the Business Day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, in a form reasonably satisfactory to it. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Issuer, as appropriate, who may submit an amended Notice of Nonpayment. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy. Upon such payment, Financial Security shall become entitled to reimbursement of the amount so paid (together with interest and expenses) pursuant to the [Bond Document or] Insurance Agreement. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond and all insurance policies in respect of the Bond, to the extent of any payment by Financial Security hereunder.

The amount available under this Policy for payment shall not exceed the Policy Limit. The amount available at any particular time to be paid to the Trustee or Paying Agent under the terms of this Policy shall automatically be reduced by any payment under this Policy. However, after such payment, the amount available under this Policy shall be reinstated in full or in part, but only up to the Policy Limit, to the extent of the reimbursement of such payment (exclusive of interest and expenses) to Financial Security by or on behalf of the Issuer. Within three Business Days of such reimbursement, Financial Security shall provide the Trustee, the Paying Agent and the Issuer with notice of the reimbursement and reinstatement.

Payment under this Policy shall not be available with respect to (a) any Nonpayment that occurs prior to the Effective Date or after the Termination Date of this Policy or (b) Bonds that are not outstanding under the Bond Document. If the amount payable under this Policy is also payable under another insurance policy or surety bond insuring the Bonds, payment first shall be made under this Policy to the extent of the amount available under this Policy up to the Policy Limit. In no event shall Financial Security incur duplicate liability for the same amounts owing with respect to the Bonds that are covered under this Policy and any other insurance policy or surety bond that Financial Security has issued.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York are, or the Insurer's Fiscal Agent is, authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the



date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Insurance Agreement" means the Insurance Agreement dated as of the effective date hereof in respect of this Policy, as the same may be amended or supplemented from time to time. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer that has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Issuer, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment of principal or interest thereunder, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds. "Policy Limit" shall be the dollar amount of the debt service reserve fund required to be maintained for the Bonds by the Bond Document from time to time (the "Debt Service Reserve Requirement"), but in no event shall the Policy Limit exceed \$ . The Policy Limit shall automatically and irrevocably be reduced from time to time by the amount of each reduction in the Debt Service Reserve Requirement, as provided in the Bond Document. "Termination Date" means the earlier of and the date the are no longer outstanding under the Bond Document.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

By \_\_\_\_\_

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 501B NY (8/96)

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